ANNUAL REPORT

of the

PROVINCIAL AUDITOR

of

ONTARIO

for the year ended March 31, 1985

THE HONOURABLE HUGH EDIGHOFFER, M.P.P.

Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report for the year ended March 31, 1985, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, November 26, 1985.

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1

GENERAL

1.1 Introduction

This Report has been prepared pursuant to the Audit Act, which requires the Provincial Auditor's annual Report to be submitted to the Speaker of the Assembly. Sections of the Audit Act relevant to the responsibilities of the Provincial Auditor are set out in Exhibit 1 of this Report.

1.2 Timetable for Preparation and Submission of Annual Report

To comply with the Audit Act, and to follow the required time for the preparation and printing process, our annual reports cover all audits completed to the end of each September. This Report, therefore, covers audit activity through the twelve month period from October 1984 to September 1985.

As a result of printing deadlines, it is not possible to include in this Report any replies from ministries and agencies of the Crown received subsequent to October 25, 1985. However, all such replies are forwarded by this Office to the Standing Public Accounts Committee of the Legislature after this Report has been tabled.

A description of the process leading up to the issue of this Report is contained in section 6.5.

1.3 Basis of Reporting and Overall Assessment

BASIS OF REPORTING

The contents of this Report are prescribed by section 12(2) of the Audit Act (See Exhibit 1 — CONTENT OF ANNUAL REPORT). Its purpose is to bring to the attention of the Legislative Assembly those matters which have been observed and are considered significant. In many respects, therefore, this is a report by exception.

Reporting in this manner may unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed. Indeed, several audits conducted during the past year disclosed no matters of major significance. With certain other

audits, although weaknesses and deficiencies were noted, the program activities and systems reviewed, when taken as a whole, were found to be generally well controlled.

OVERALL ASSESSMENT

Overall, we found that the areas audited during the past year were administered in a satisfactory manner. However, as in past years, there is definitely scope for improvement, as evidenced by the audit observations contained in this Report.

We are pleased to report that we received all the information and explanations required in carrying out the work of the Office.

1.4 Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

It is our practice to follow up on the status of suggested corrective action and recommendations at the time of our next audit of each ministry or agency of the Crown. In this connection, the status of suggested corrective action and recommendations contained in the body of our 1984 Report and unresolved matters from previous reports is indicated in Exhibit 9 of this Report.

2

SUMMARY OF AUDIT OBSERVATIONS

2.1 Introductory Comments

The following two sections have been prepared to provide the reader with a brief overview of the audit conclusions and observations contained in Chapters 3 and 4 of this Report, together with our views as to the most significant sections. For additional information, together with our recommendations, reference should be made to the relevant detailed sections of this Report, which have been identified.

2.2 Comments on Ministry Operations

In many of our audits throughout the year, we undertook to assess management's concern for economy and efficiency in the conduct of their operations. We felt that improvements were required in this regard, particularly in our audits of the Ministries of the Attorney General, Government Services, Natural Resources and the Solicitor General. Dealing with effectiveness, we were concerned with the failure to evaluate the results of many of the projects that were financed by the Board of Industrial Leadership and Development (BILD).

Another important component of our activities during the year was the audit of two community colleges. One audit was requested by the Standing Public Accounts Committee and disclosed serious inadequacies in financial administration. In the other audit, a number of deficiencies in internal control were observed.

In recent years the subject of non-compliance with legislative and administrative requirements, notably those of the Ontario Manual of Administration, has received considerable attention from the members of the Legislature. During the 1985 fiscal year we again observed instances where, in our opinion, non-compliance has occurred. Two of particular significance were noted in the Ministry of Agriculture and Food. These and others are identified in sections 3, 7, 8, 10, 12 and 13 of Chapter 3.

A summary of our conclusions and observations regarding the preceding and other matters detailed in Chapter 3 is set out as follows:

Study of Government Management Practices and Accountability

(3.2) • A steering committee of deputy ministers and an implementation team of senior executives are in the process of dealing with the Study's recommendations.

Ministry of Agriculture and Food, Purchasing System and Quality and Standards Division

(3.3) • Internal controls over purchases were generally satisfactory. However, some significant exceptions were noted.

• Management controls of the Quality and Standards Division required improvement in certain areas.

Ministry of the Attorney General, County and District Courts Activity

(3.4) • Improvements were required in the scheduling of court cases and use of courtrooms.

Ministry of Citizenship and Culture, Sudbury Science Centre

(3.5) • Management controls over $12.4 million in grants to the Centre should have been stronger.

Ministry of Colleges and Universities, Algonquin College of Applied Arts and Technology

(3.6) • Our reports to the Standing Public Accounts Committee highlighted inadequate internal and management controls.

Ministry of Colleges and Universities, Inspection Audit of Centennial College of Applied Arts and Technology

(3.7) • Internal controls and compliance with policies related to furniture and equipment together with the purchase of goods and services were inadequate.

Ministry of Education, Inspection of Private Schools

(3.8) • Controls relating to the inspection of private schools required improvement.

Ministry of Education, Curriculum-Related Matters

(3.9) • Procedures used to monitor and report on the development, implementation and review of curriculum guidelines needed significant improvement.

Ministry of Education, EDP Controls, Data Processing Services Branch and School Board Services Unit

(3.10) • EDP controls were generally adequate. However, two significant exceptions were noted.

Ministry of Energy, Alternative and Renewable Energy Program

(3.11) • Controls were generally adequate, although we noted two instances of questionable expenditure.

Ministry of Government Services, Government Accommodation

(3.12) • Improvements were required with regard to the monitoring of overall utilization of accommodation and compliance with Management Board of Cabinet policies.

Ministry of Health, Nursing Homes and Homes for Special Care

(3.13) • Inspection procedures were found to be generally satisfactory, although certain matters required improvement.

Ministry of Health, Ontario Government Pharmacy Minicomputer System

(3.14) • Weaknesses were noted in the ongoing administration of a contract to install a system.

Ministry of Natural Resources,Forest Management Activity

(3.15) • Generally, there was due regard for efficiency.

• Controls to ensure due regard for economy were generally adequate. However, several areas warranted improvement.

Ministry of Revenue, Retail Sales Tax Branch

(3.16) • Controls over the vendor tax roll and the collection of accounts were generally satisfactory.

• The audit function has been reasonably successful in fostering compliance by those vendors it audits. However, some areas of concern were identified.

• Audit coverage was inadequate to encourage voluntary compliance by those vendors not selected for audit.

Ministry of the Solicitor General, Ontario Provincial Police Operations

(3.17) • The Field Operations Division had generally endeavoured to employ resources in the most efficient and effective manner. However, some inadequacies were noted.

• Management controls in the Supply Division were generally adequate to ensure due regard for economy. Additional economies could have been achieved in several areas.

Ministry of Transportation and Communications, Highway Maintenance Operations

(3.18) • We noted a number of areas where additional cost effective initiatives should be undertaken and controls strengthened.

Ministry of Treasury and Economics, Board of Industrial Leadership and Development (BILD)

(3.19) • Results relating to overall BILD objectives were not reported.

• Some systems of management control relating to individual BILD initiatives in ministries were deficient.

2.3 Comments on Crown Agency Operations

Management's regard for economy and efficiency was also reviewed in several of our agency audits. In some areas we felt that attention to these matters was insufficient, most notably in respect of election administration in the Office of the Assembly and general administration in the IDEA Corporation. Significant deficiencies in accounting records or controls were also evident in a number of cases, in particular the Liquor Control Board of Ontario and the Ontario Heritage Foundation.

With reference to our comments in the preceding section on non-compliance with legislative and administrative requirements, notable instances of non-compliance were observed during our audits of the Liquor Control Board of Ontario and Ontario Housing Corporation.

A summary of our observations regarding the preceding and other matters detailed in Chapter 4 is as follows:

Agencies, Sunset Review Process

(4.2) • Over the period of the sunset review process, the number of agencies has continued to increase.

The Centennial Centre of Science and Technology, Various Matters

(4.3) • We questioned arrangements with two organizations presenting programs at the Centre.

• Advances of $17,000 for a retirement party were not accounted for.

• We questioned reciprocal arrangements allowing free admission of Centre staff to other attractions.

IDEA Corporation, Administrative Expenditures

(4.4) • A lack of due regard for economy was noted in the following areas:

—leasing of office space in excess of requirements

—awarding of high termination benefits to executives

—acquisition of excess office equipment

—lack of competitive bids or tenders for consulting contracts involving over $200,000 in payments.

Liquor Control Board of Ontario, Various Matters

(4.5) • Board procedures and governing legislation were contravened in the importation of draught beer.

• Delays in making the Whitby distribution warehouse fully operational have resulted in additional costs of over $250,000 per month.

• Records relating to the sale of American beer to certain licensees were inadequate.

Office of the Assembly, Chief Election Office

(4.6) • We felt there were opportunities for increased economy in the reproduction of electoral lists and the printing and distribution of enumeration cards.

The Ontario Cancer Institute, Creation of New Charitable Foundation

(4.7) • We questioned the rationale for creating a new charitable foundation, the P.M.H. Trust.

The Ontario Cancer Treatment and Research Foundation, Sale of Investments and Billing System

(4.8) • The sale of $3.3 million of debentures, resulting in a $368,000 loss, was not supported by evidence of potential overall gain from the reinvestment of the proceeds.

• A computerized Patient Care Management System under development since 1983, to provide better billing systems at the clinics, had not been implemented.

Province of Ontario Council for the Arts, Policies and Procedures

(4.9) • We noted extensive reimbursement of admission tickets to events attended by Council members and staff.

• There were no guidelines and procedures established for the selection, monitoring and performance assessments of consultants.

The Ontario Heritage Foundation, Accounting Records and Controls

(4.10) • Weaknesses in the Foundation's accounting records and procedures as well as controls over articles of a cultural nature, which were reported on in 1984, had not been fully addressed at the completion of our 1985 audit.

Ontario Housing Corporation, Security Services

(4.11) • A company was paid over $7.5 million during an 8½ year period without the benefit of competitive selection procedures or a written contract.

• Another company was retained under four consecutive five-year contracts, none of which was publicly tendered.

Ontario Lottery Corporation, Appointment of Distributors and Management Compensation

(4.12) • Applications on file were reviewed but no advertising was done for a distributorship opening awarded to an employee.

• Management compensation increases exceeded the government restraint guidelines of 5 per cent.

Ontario Place Corporation, Free Passes and Parking Revenue

(4.13) • Free passes issued by the Corporation admitted approximately 33,000 people to Ontario Place during the 1984 season.

• Internal controls required improvement relating to the accounting for free passes and the collection of parking fee revenue.

Pension Commission of Ontario, Monitoring of Statutory Reports

(4.14) • Our 1984 audit revealed inadequate monitoring procedures regarding the filing of statutory annual information returns and triennial actuarial reports.

• A $1.8 million claim paid from the Pension Benefits Guarantee Fund could have been reduced if earlier monitoring and corrective action had been taken by the Commission.

• Improvements in monitoring procedures were noted at the time of our 1985 audit.

3

COMMENTS ON MINISTRY OPERATIONS

3.1 Introductory Comments

Most of the comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing ministry audits and special reviews. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 6.

3.2 Study of Government Management Practices and Accountability

In section 3.3 of our 1984 report we indicated that a committee of senior deputy ministers had selected two consulting firms to jointly carry out a major study of management practices and accountability. The study was to recommend improvements in three major areas, namely:

- the government's accountability structure;
- management policies and practices, including administrative rules (the Manual of Administration);
- the working climate and the development of senior personnel.

The study was confined to the ministry and central agency operations of the government and did not include Crown agencies, boards, commissions or transfer payment recipients.

A steering committee, comprised of representatives from both the private and public sectors, was established to oversee the progress of the study and to work with the consultants in reviewing issues and proposals.

NATURE OF REVIEW AND REPORTING PROCESSES

The procedures used by the consultants in conducting their study provided the opportunity for broad input and extensive reaction by other parties and included:

- interviews or discussions with:
  - —a number of ministers, all deputy ministers and numerous senior civil servants;
  - —the Provincial Auditor, Assistant Provincial Auditor and

representatives from the opposition parties and the Standing Public Accounts Committee;

- reviews of pertinent written material, including descriptions of present practices and other internal governmental documents;
- examining the application of government-wide processes in four representative ministries;
- gathering information on current structures, practices, issues and plans from other Canadian provinces, our federal government and three foreign countries;
- interviews with senior executives of 28 major Canadian private sector organizations regarding their managerial practices, issues, trends and innovations;
- providing the Steering Committee with documents on interim findings and the results of the consultants' reviews and discussions;
- meetings with the Steering Committee and other groups to discuss the study's findings, issues, conclusions, options and recommendations.

On January 22, 1985 "A Study of Management and Accountability in the Government of Ontario" (the Study) was presented to the Chairman of the Management Board of Cabinet and the Treasurer.

OVERALL CONCLUSIONS

The consultants summarized the results of their study as follows:

- A reasonable accountability structure is in place but could be strengthened, primarily by clarifying and enhancing the deputy ministers' links with their ministers, the Premier and Management Board.
- The administrative rules in the government's Manual of Administration generally are sound and well accepted. However, changes could be made:

  —to improve the content and format of the rules;

  —to strengthen commitment to compliance;

  —to keep the rules current with emerging needs; and

  —to ensure that the rules do not inhibit efficiency or creativity.

- The working climate and the attitudes of senior civil servants broadly indicate a healthy management organization dedicated to the accomplishment of tasks. However, changes are needed to

instill the value of working consistently within the established rules.

STATUS OF RECOMMENDATIONS

The major recommendations arising from the study provide a means of:

- defining and enhancing authority and accountability relationships in the senior levels of government;
- increasing the effectiveness of the Manual of Administration as an instrument of policy;
- improving the working climate and ensuring that innovation and achievement of goals within the rules are pervasive values in the civil service.

A steering committee of deputy ministers and an implementation team of senior executives were formed to examine the Study and to assist in dealing with the recommendations. Much of the effort to date has been concentrated on the latter two of the aforementioned areas. The status of certain recommendations with which the Management Board Secretariat and the Civil Service Commission are directly or indirectly involved is as follows.

The Accountability Structure

Action had been taken to address some of the Study's recommendations relating to the accountability relationships among the senior levels of government. The Deputy Minister's Annual Report to Management Board (previously the "Deputy Minister's 100 Minutes", now revised to encompass additional areas of ministry activity) is to include information on areas such as human resource management, program management, productivity improvement, management information systems and internal audit. It is intended that, as part of Management Board's Annual Review of the Deputy Ministers, the expectations and major areas of direction for the next review period will be communicated to the deputy ministers.

The revisions to the Manual of Administration are intended to clearly assign the accountability for administrative decisions to the deputy ministers.

The Manual of Administration

As at the end of our reporting year (September 30, 1985) substantial progress had been made in addressing the Study's recommendations relating to the Manual of Administration.

A framework for a revised Manual had been developed embodying

the corporate values and philosophies of management within the Ontario public service as well as simplifying and clarifying the content of the Manual.

The implementation team, overseeing both the revision of the Manual's directives and the overall development of the revised Manual, will also guide the development of the necessary educational and communicative programs.

Changes to some administrative directives, such as management consulting services and advertising, had been completed, with other changes scheduled for completion within the next few months. It is intended that the Manual, along with a number of revised directives, will be completed by the end of the 1986 fiscal year.

The Working Climate and the Development of Senior Personnel

The Study's recommendations in this area were mainly addressed by the Civil Service Commission. The Commission's involvement in communicating and reinforcing accepted government-wide values in the working climate included ensuring that a clear set of values, especially those values related to human resources, formed part of the revised Manual of Administration. Also the human resource management component of the Corporate Management Development Program had been increased. This component is also being highlighted in executive education programs.

The Study recommended that the design and evaluation of the government-wide training program should be assigned to a central training committee. A committee of senior executives has been established to review all management/executive education programs regarding such aspects as corporate values, program objectives and content, location and teaching methods.

The Study also recommended that government-wide training be better utilized to reinforce desired corporate values in the working climate and to build working relationships that would improve executive effectiveness. Executive training, primarily residential in nature, will provide executives with the opportunity for exchanging ideas and gaining insights into the responsibilities of their peer groups. This situation will further the use of informal networks essential to the development of the senior executive. Some executive education programs, such as the Corporate Perspective Program and the Corporate Orientation Program, have been implemented while others are under review or are being planned.

The government-wide commitment to executive planning and development was also mentioned in the Study. The Study recommended

that the commitment be intensfied, with the deputy ministers having the primary role. Various human resource management policies and procedures are being developed in the ministries.

The Senior Appointments Advisory Committee is currently comprised of several deputy ministers and is co-chaired by the Secretary of the Cabinet and the Chairman of the Civil Service Commission. The Study recommended that the Committee provide government-wide leadership to the career management of present and potential executives. The Committee is currently reviewing its role and policies to ensure that a high quality senior management pool is developed for making appointments to senior positions in the public service.

Acting in a service and advisory role, the Civil Service Commission is continuing to refine the quality of the management inventory that will assist the deputy ministers in filling senior positions.

Performance appraisals, as an integral part of the supervisory function, have been promoted by: improved training programs; a program to maintain awareness of the importance of appraisals and to encourage a high standard of implementation; and requiring that a report on the performance appraisal system be included as part of the annual report by the deputy ministers.

The development of programs to deal with performance problems is currently under review by the Civil Service Commission.

3.3 Questionable Tendering Practices and Other Matters re Quality and Standards Division, Ministry of Agriculture and Food

Our audit of the Ministry examined the Purchasing/Accounts Payable System and the Quality and Standards Division, and included assessments of:

(a) the adequacy of internal controls, including compliance with established policies and procedures (Purchasing/Accounts Payable System); and

(b) the adequacy of management controls designed to ensure due regard to economy, efficiency and effectiveness (Quality and Standards Division).

We concluded that internal controls, compliance with legislation, and management controls were generally satisfactory. However, we noted that the following matters were in need of attention:

(a) • Contracts with a management consultant were fragmented to circumvent tendering requirements.

- **A contract for a $1.2 million computerized system was not tendered, nor was Management Board approval obtained.**
- **Taxable benefits relating to employee use of Ministry vehicles were not included on employee T4's.**

(b)
- **Two levels of government were performing the same sanitation inspection of livestock processor facilities.**
- **More thorough testing and monitoring could have alleviated problems encountered at the new Central Milk Testing Laboratory.**
- **Milk plant audit procedures were inadequate.**

DETAILED COMMENTARY

Purchasing/Accounts Payable System

1) Questionable Management Consulting Arrangements

From 1982 to 1984 the Ministry hired a management consulting firm to undertake nine studies on several aspects of the stock yard facilities, the red meat industry (cattle, hogs, sheep), as well as the grains and oilseeds industry. The Ministry hired this firm as it felt it was the only firm qualified. The work was undertaken by one individual, the President, who was paid a $250 per diem totalling approximately $125,000 over a two year period.

The Ontario Manual of Administration policy relating to management consulting services requires the following:

- The Ministry must initially prepare a documented feasibility study to ensure that projects are specific and clearly defined.
- Projects must be tendered when estimated total costs are over $15,000, with all exceptions requiring Management Board approval.
- Management Board approval is required when estimated total costs of the project are over $100,000.

During our review of these management consulting services we noted:

- No evidence of a documented feasibility study justifying the need to hire a consultant.
- In April 1982 the consultant informed the Ministry that he had been involved in many aspects of the agricultural business for the Ministry since January 1982 under loose guidelines and requested that he be provided with "some laid down guidelines and a formal contract".

In May 1982 the Ministry prepared a draft contract to cover the period January to June for approximately $30,000. Subsequently, however, this contract was broken into two separate contracts: the first, covering January to March 1982, totalled $14,500; the second, covering April to June 1982, totalled $13,750.

By breaking up the original draft contract into two separate contracts for less than $15,000 each, the Ministry was able to circumvent the Manual requirements that tendering be performed for services over $15,000. Furthermore, including these 2 contracts, there were a total of nine contracts running continuously from January, 1982 to February, 1984 totalling approximately $125,000. Each contract was for between $13,500 and $14,700 except for one which approximated $11,000.

- **Management Board approval was not obtained despite the fact that the total cost of the nine consecutive contracts was in excess of $100,000.**
- In total, aside from some correspondence between the firm and the Ministry, there were only three formal reports prepared by the consulting firm for the nine studies undertaken and only one of these reports included any recommendations.

We were informed that in June 1985 the Ministry's Senior Management Committee approved a guide to assist managers in achieving more consistent compliance with government and Ministry policies and procedures regarding the purchase and management of consulting services.

2) Management Information System — Non-Compliance with Manual of Administration

In 1982, the Ministry introduced a computerized system in order to improve resource planning, management, and monitoring within the Ministry. This system, known as the Integrated Planning and Control System (IPACS), is a data base management system integrating human and financial resources and performance evaluation information.

The Ministry has used IPACS for a number of purposes including production of cash flow forecasts, variance reporting (comparing actual to budget) and retrieval and analysis of financial and human resource information.

Between September, 1982 and May, 1985 the Ministry entered into a number of agreements with a company for data processing and system development services related to IPACS. During this period the Ministry paid this company approximately $780,000 for processing costs and approximately $480,000 for development costs.

We reviewed the decision to implement IPACS and to engage this

company and noted the following instances of non-compliance with the Manual of Administration:

- No documented feasibility study assessing the need for the system, including an analysis of the benefits and development and operating costs, was carried out.

- **No tenders were issued for any of this work, nor was Management Board approval obtained prior to awarding the contract, as required for all data processing service and system development costs in excess of $100,000 each.**

More recently, the Ministry found that its financial and human resources information needs were shifting and it wished to review the overall cost and effectiveness of IPACS. As a result, a task force was formed on June 1, 1985 to determine the Ministry's financial and human resource information needs. Based on the findings of the task force, the Ministry anticipated reporting back to Management Board within three to six months as to whether it will carry on with IPACS, keep some elements of IPACS or drop the IPACS system.

On May 28, 1985 Management Board approved the Ministry's request to continue its contract with the company responsible for the processing of IPACS for one year commencing June 1, 1985, at a value not to exceed $150,000, without tender, in order to allow the Ministry sufficient time to implement the variety of alternatives mentioned above.

3) Failure to Include Motor Vehicle Taxable Benefits on Employee T4's

The Ministry owns 425 automobiles of which approximately 300 are assigned to employees for daily use in performing Ministry business. The remaining 125 vehicles are pooled vehicles which are shared by a group of drivers usually at a district office or agricultural college.

In accordance with the Ontario Manual of Administration, the 300 employees who have been assigned vehicles are allowed to use these vehicles to drive to and from home and their work headquarters. This is considered a taxable benefit under the Income Tax Act.

In 1980, the Ministry requested an interpretation from Revenue Canada on this issue. Revenue Canada informed the Ministry that those employees who are allowed to drive the vehicle between home and their regular work place would be in receipt of a taxable benefit.

While the Ontario Manual of Administration does not address the issue, the Ministry's Administrative Policy Manual acknowledges that such use is a taxable benefit and requires all drivers of Ministry vehicles to complete a vehicle log daily. The Manual further states that the

information reported on logs will be utilized for calculating the taxable benefits on employees' T4's.

However, during our review we noted that the Ministry did not include a taxable benefit on these employees' T4's for the calendar years 1982-84. Based on a sample of the logs prepared by the drivers of Ministry vehicles, we performed a rough calculation for these calendar years and estimated that **approximately $900,000 of taxable benefits had been excluded from the employee T4's.**

We were advised by Ministry employees who had a Ministry vehicle that they leave it up to the Ministry to include the appropriate taxable benefit, if any, on their T4's.

Quality and Standards Division

The Quality and Standards Division is comprised of three operating branches with total expenditures for the 1985 fiscal year of $14.4 million. The Division's prime function is to conduct inspections of dairy, livestock, and fruit and vegetable products. Such inspections must be carried out to ensure compliance with the various Acts and Regulations governing these food products.

1) Duplication of Effort — Livestock Inspection Branch

Approximately 290 provincially licensed slaughterhouses are inspected by the Livestock Inspection Branch and an inspector must be present continually when a slaughterhouse is in operation. In conjunction with inspection of the animals, the Branch also carries out a formal periodic inspection to ensure the processing facilities in Ontario inspected plants meet provincial sanitary requirements.

We noted that since June 1984 health inspectors from municipalities have inspected these same premises up to six times per year under the Ministry of Health's new Food Premises Regulation. In addition to duplication of effort, we were advised that field staff had received complaints from plant operators who questioned the necessity of two types of government inspectors performing essentially the same duties.

We were informed that a joint committee was established several years ago between the two ministries to develop province-wide guidelines outlining mutual responsibilities. On May 30, 1985 a memorandum from the Ministry of Health suggested that the scheduling and scope of plant inspection visits would be arranged in cooperation with the meat inspection staff.

2) Problems at the New Milk Testing Laboratory — Dairy Inspection Branch

In March 1985 a new highly mechanized Central Milk Testing

Laboratory (CMTL) was opened replacing the existing facility. The Laboratory's primary function is the testing of milk samples for composition and quality. The milk from each dairy farm is tested weekly to determine the content of milk fat, lactose and protein. The price paid to the farmer is largely determined by the milk fat content. Monthly tests for milk quality are conducted to ensure that producers' milk does not contain excessive bacteria, antibiotics or added water.

As part of the planning process for the new laboratory, the Ministry engaged a consultant in 1981 to assist in determining the required test checks on the new equipment to ensure it was operating accurately.

The operation of CMTL is directed by a policy committee comprised of representatives from the Ontario Milk Marketing Board, the Ontario Dairy Council and the Ministry. The final test check procedures were approved by this committee.

We noted the following problems encountered by the Ministry when the new facility began operating in March 1985:

- **More than 1,000 complaints were received from farmers relating to the results generated from the composition tests. These test results showed significantly lower milk fat content than prior to the conversion, resulting in potential lower payments to the farmers of approximately $3.7 million.** We were advised that the problems were caused by the new equipment. Although the new equipment was tested, not all test check procedures originally recommended by the consultant were carried out.

  Subsequent to the completion of our audit field work, we were informed that payments to the farmers are to be adjusted.

- During the first three months of operation, bacteria and related test results were not reported for approximately 4,100, or 13 per cent, of the 32,000 milk samples collected from March to May 1985. The staff were unable to pinpoint the cause, although they believed insufficient computer storage capacity could have been the reason for the missing results. We understood the computer system was not thoroughly tested before being put in operation.

- Although not required by regulation, tests were also conducted to ensure the producer had not added water to the milk. However, the computer equipment and program linking the added water testing equipment were not ready for implementation. As a result, tests had to be performed manually. Although in the past added water had been found on the average of 8 times per month, we were advised that since the facility opened the manual tests had found no instances of added water.

While we acknowledged that there were time pressures in setting up the new system, we felt that a more thorough monitoring of the conversion process could have alleviated some of the problems encountered.

3) Milk Plant Audit Procedures Required Improvement

Processing plants are audited monthly to assure producers they are paid according to the products manufactured from the milk they produce.

Payment for milk to the Ontario Milk Marketing Board (OMMB) and ultimately to the farmers by the processors is based partially on plant declarations as to the milk's end use, e.g. cheese, ice cream, fluid milk, etc. The primary purpose of the plant audit program is to assure the OMMB and the farmers of the accuracy of the processors' declarations. If, as a result of the audit, the declaration and related price is found to be inaccurate, then the auditor processes the necessary adjustment through the OMMB.

During our audit we observed that plant auditors' working papers supporting audit work done were not being reviewed by the Plant Audit Supervisor. Our review of a sample of files maintained by the auditors showed that the amount and quality of documentation varied greatly from one auditor to another. In all cases, these working papers did not specify the audit procedures being carried out nor did they indicate the extent of audit testing performed. We further noted that:

- Acceptable standards of yield, which can be reasonably expected from specific usages of milk (e.g. number of kilograms of butter or cheese produced from a hectoliter of milk), were not being used. Since plants pay according to the volume of milk utilized, such standards would be a useful predictive audit tool for the auditors.

- **Plant auditors essentially just compared the reported declaration of milk usage to records provided by the company to support their declaration. There was minimal substantiation of the validity of the processors' claims through independent checks to customer invoices or shipping documents.**

Adjustments generally arise only from differences between estimated figures as initially declared by the company and the final company figures rather than from differences arising as a result of audit testing. **In our opinion, any deliberate attempt to falsify records or an inadvertent error on the part of the plant would not likely be detected by the 'audit' procedures in place.**

We also noted that while most of the ten Ministry plant auditors had dairy business experience, only one had received any formal training in accounting and auditing.

We felt that management should have been more involved in monitoring this program to ensure that the performance and quality of the plant auditors' work was satisfactory and that the required audit work was being properly completed and documented. This was particularly important in light of the fact that the Branch confirms in writing to the auditors of the Ontario Milk Marketing Board that all milk utilization audits have been satisfactorily completed and that there are no material outstanding adjustments.

We therefore recommended that the Branch consult with the Ministry's Audit Services Branch as we felt they could provide practical and constructive guidance in defining audit procedures and assisting in the training of auditors.

The Deputy Ministry replied to the foregoing observations on October 25, 1985 and commented as follows:

Purchasing/Accounts Payable System

Questionable Management Consulting Arrangements

"The Ministry has significantly increased the controls regarding the purchase and management of consulting services. In addition to the dissemination of the Manager's guide to the purchase and management of consulting services, the Ministry's internal policy has been strengthened to include pre-auditing of all consulting contracts."

Management Information System — Non-Compliance with Manual of Administration

"The Ministry has now established a Management Systems Branch and will ensure that all systems policies will be adhered to."

Failure to Include Motor Vehicle Taxable Benefits on Employee T4's

"Prior to 1980, the Ministry included a taxable benefit on the employee's T4. In 1980, resulting from a federal tax case on employee benefits arising from having a company car available, the Ministry sought a ruling from Revenue Canada.

"Revenue Canada stated that resulting from the tax case, our employees were no longer taxable under the 'standby' clause but may still be taxable under the 'operating costs' clause. As the Ministry does not capture costs related to operating individual vehicles, management decided to cease including a taxable benefit on employees' T4's.

"This practice is consistent with all other provincial ministries.

"The Provincial Auditor, resulting from this audit, has since advised the Ministry that the 'standby' clause was deleted in late 1982 and that the Ministry should have been charging a taxable benefit to those employees who are assigned a Ministry vehicle.

"The Ministry will review its current policy and procedures as well as seek clarification and assistance from the central agencies of government in addressing the auditor's concern."

Quality and Standards Division

Duplication of Effort — Livestock Inspection Branch

"Reference in the report is made to the Ministry of Health scheduling plant inspection visits in co-operation with meat inspection staff. The action taken through the Ministry of Health — Ministry of Agriculture and Food Liaison Committee will ensure that unnecessary duplicate inspections will not be made."

Problems at the New Milk Testing Laboratory (CMTL) — Dairy Inspection Branch

"To fully understand the problems identified in this section, one should be aware of the fact that the Province of Ontario in the late 1960s pioneered the concept of centralized electronic testing of milk for payment purposes. This was not completed without problems, especially those associated with the implementation of a new concept that had never been tried anywhere else in the world. Over the ensuing years five major changes in the laboratory's operation had to be made to improve its accuracy and accommodate industry change.

"The decision in the early 1960s to abandon the old laboratory and embark on a new venture was prompted by obsolescence of equipment, high operating costs and an obsolete building.

"During the late 1970s and early 1980s government and industry personnel visited laboratories throughout North America and the European Continent. Again as in the 1960s no laboratory prototype could be found that met Ontario's requirements, thus a joint industry-government committee

evaluated new equipment and conducted numerous research projects in preparation for building and equipping a new facility.

"By 1983 laboratory instrumentation had advanced to a point where it was now possible to abandon the costly program performed in the Public Health laboratories and combine these tests with payment testing utilizing bar code readers, micro-computers, as well as the latest in electronic analyzers. Again, all in-lab procedures had to be designed by the Ministry since they could not be purchased on the open market.

"Opening the new facility was delayed from October 1984 to March 1, 1985 because of delays in delivery of computer hardware and software programs. Once the producer payment tests for March had been completed, it was evident that the tests were biased slightly downward. This bias downward continued through April and May since the cause of the bias could not be determined.

"In defence of the Laboratory, it should be pointed out that it is the only laboratory of its type in the world that monitors its accuracy and reports these findings to the end users, namely the Ontario Milk Marketing Board (O.M.M.B.) and the Ontario Dairy Council (O.D.C.). The slight downward bias coupled with the normal decline in butterfat tests that always occur in March, April and May resulted in 1/10th of the producers filing written complaints with the Branch.

"By June the accuracy of the testing had been restored to the accepted level, thus the Director adjusted the tests of every producer upwards in accordance with the error found in each month's results and forwarded it to the O.M.M.B. who paid each producer for this increased value in August and in turn invoiced the plants who had received the milk.

"To prevent this occurrence in the future, the CMTL Technical Committee and the CMTL Policy Committee which are joint industry-government committees are developing a procedure to resolve disputes where laboratory accuracies fall outside the prescribed levels.

"When quality tests were performed in the Public Health laboratories, missing tests were an ongoing problem, thus it was not unexpected when this problem carried over to the new C.M.T.L. Since accuracy of testing was the primary

concern in the conversion to the new facility, missing tests did not receive the priority that was raised by the Provincial Auditors. Since that time the number of missing tests has fallen substantially each month. Because of producers leaving and entering the industry, there will always be a small number of missing tests each month. Furthermore, no producer ever experiences a penalty as a result of a missing test.

"Because of a totally new concept of reporting freezing points of milk (added water) had to be devised and the regulations under the Milk Act do not prescribe the frequency of testing, the Dairy Inspection Branch delayed the implementation of this new program. Delaying the opening of the new C.M.T.L. until the added water program was fully operational could not be justified economically.

"The reasons why parallel operations at the old and new lab were not considered were:

1. *The old laboratory was exceeding the upper and lower limits of acceptable accuracy thus could not provide data upon which to evaluate the new operation,*
2. *The O.M.M.B. and the O.D.C. who pay 2/3rds of the lab's operating costs were not prepared to pay this dual cost."*

Milk Plant Audit Procedures Required Improvements

"Your comments on this matter are appreciated. Existing procedures as set out in the Milk Utilization Audit Manual are being reviewed by the Director, (DIB), the Plant Section Program Manager and the Plan Audit Supervisor.

"To a large degree the deficiencies set out in the report can be attributed to staff vacancies (40% staff turnover in 1984-85) and the limited time the present supervisor has been in his position. Since assuming the position the supervisor has been addressing many of the concerns alluded to in the report and implementing changes on a gradual basis, including an ongoing organized training program. It is not necessarily agreed that the qualifications of the audit personnel are inadequate, however, a thorough assessment of educational and experience requirements will be made."

3.4 Improvements Required over Management and Financial Controls, County and District Courts Activity, Ministry of the Attorney General

In a recent audit of the Ministry, we assessed the adequacy of management controls with respect to the County and District Courts Activity of the Courts Administration Program. **We concluded that improvements were required. Specifically:**

- **Better scheduling of court cases and use of courtrooms was necessary in view of a significant backlog of cases.**
- **We saw no evidence that a decision to build six additional courtrooms adequately considered the utilization of existing courtroom facilities.**

During our audit we also observed that:

- **Procedures to collect fines of approximately $69 million should be improved.**
- **Payments have been made for a number of years to an individual retained by the Ministry in the capacity of executioner despite the abolishment of capital punishment.**
- **Excessive costs were incurred for transcripts of a Royal Commission's hearings.**

DETAILED COMMENTARY

County and District Courts Activity

This activity is responsible for processing legal matters and ensuring the quality and effectiveness of court reporting services for all levels of courts throughout the Province.

There is a district court for each of the 49 districts of the Province and they are served by approximately 145 judges. In the 1984 fiscal year, over 8,000 civil actions were set down for trial and over 5,000 criminal cases settled by district court judges. Salaries and benefits for staff, numbering approximately 700, account for over 70 per cent of the Activity's total expenditures of $42.1 million in the 1985 fiscal year.

Courtroom Scheduling and Use

The Information and Computer Systems Branch of the Ministry produces a quarterly court statistical report containing general data on the activities of various courts and sheriffs' offices.

According to the court statistical report as at September 30, 1984, the case backlogs for the district courts were as follows:

	Criminal Cases	Civil Cases	Backlog Total
York	2,137	2,227	4,364
Other	3,911	4,366	8,277
Total	6,048	6,593	12,641

In 1984 the Ministry, in conjunction with the Judiciary, engaged the services of a consultant in an attempt to improve criminal case processing at York. The consultant suggested that the court consider increasing the number of judges sitting on trial calendars in the summer months. The report indicated that the loss of judges' courtroom time during these months, coupled with periodic loss due to vacations throughout the year, deprived the system of much needed manpower.

In addition, the report was concerned with the monitoring and control of the case scheduling system, which was necessary to maximize use of available judges and courtrooms. In interviews carried out at York by the consultant, both judges and attorneys reaffirmed the need for certainty in the scheduling system, namely, that a case would not be deferred because no courtroom was available.

Our review of the Ministry's 1984 daily courtroom utilization records for a sample of six court locations, including York, with significant case backlog, revealed that:

—Court utilization in all locations declined dramatically during July and August. For example, use of courtrooms outside of York during the summer months averaged 29 per cent and York averaged 35 per cent.

—For the six month period April to November 1984 (not including July and August) there were 4,000 courtroom days available in the five locations excluding York. Of these, over 700 full days were not utilized, while in approximately 1,850 days, courtrooms were used for half a day or less. For the same period, based on approximately 3,000 available days, the comparative figures at York were over 400 full days not utilized and over 1,000 days where the courtrooms were used for half a day or less.

In the fall of 1982, the Judiciary made a special effort, dubbed "the blitz", to reduce a backlog of criminal cases at York by better utilizing courtroom facilities. This resulted in 67 per cent more indictments disposed of than in the same period a year earlier.

Better court utilization is seen as an increasingly important issue because:

—the new constitution provides for a right to trial within a reasonable time;

—charges have been dismissed in the past because of undue delay;

—the trend in recent years has been towards longer trials which employ the Judiciary, court staff and facilities for lengthy periods.

We understood that, as an initial step, the Ministry was developing a feasibility study for a computerized case management system in cooperation with the Judiciary for the Supreme and District Courts at York.

Additional Courtroom Facilities

In June 1983 the Ministry applied to Management Board of Cabinet for approval to proceed with the design and construction of six additional criminal courtrooms for the Supreme and District Courts in Metropolitan Toronto (York District).

The initial request for $8 million was approved by the Board in June 1984. This amount was revised to $8.7 million and approved in March 1985. While we understood that the hiring of contractors was nearly completed, the only costs incurred at the time of our audit consisted of architectural and engineering fees amounting to approximately $400,000.

The application and presentation to Management Board in June 1983 made mention of requiring additional courtrooms to reduce the heavy backlog in cases. However, there was no evidence of any information having been provided on current courtroom utilization, or the possibility of year round utilization of existing courtrooms as another method for reducing the backlog in cases.

In view of our previously noted concerns regarding courtroom use, it was not clear whether the decision to build new courtrooms was the only practical solution available to rectify the substantial backlog of cases.

General Matters

Accounts Receivable

The Ministry's accounts receivable pertaining to provincial fines and penalties as at March 31, 1985 amounted to almost $69 million, and included the following:

—**Approximately $41 million related to fines levied under the Highway Traffic Act.** Courses of action available to the Ministry, with respect to fines not paid within a specified period of time, are the suspension of licences or the issuance of a warrant of committal (arrest). As at March 31, 1985 unpaid fines relating to licences suspended totalled approximately $13 million. The information on such licence suspensions is maintained by the Ministry and by the Ministry of Transportation and Communications.

—**Approximately $28 million related to other fines under provincial statutes or the Criminal Code (Canada).** Warrants of committal are normally issued when the period given to pay the fine has expired.

In our review of the collection of receivables we noted that:

—**Licence suspension fines had not been actively pursued for collection.** For example, if the offender continues to operate a vehicle without a licence, collection is only effected if/when the suspended person is stopped by the police for another offence.

—By statute, only the police have the power to enforce these warrants of committal. For offences where the offender lives in an urban centre, e.g. Toronto, the responsibility lies with the Metropolitan Police, who, we were informed, do not serve these warrants.

In view of the magnitude of the outstanding receivables, we recommended that the Ministry improve its collection procedures. The Ministry management advised us that there were a number of problems associated with achieving improved collections, one of which relates to obtaining the cooperation of various groups, e.g. Metropolitan Police and Ministry of Transportation and Communications (MTC).

Management also advised that some steps under consideration included:

—amendments to the Highway Traffic Act to enable MTC to deny licence plates to people whose licences are under suspension for non payment of fines;

—encouraging Metropolitan Police to serve warrants as was done with some success on an experimental basis in January 1985.

Executioner Fees

In November 1970 the Ministry retained an individual for a fee of $200 per month as provincial executioner at York County Court. **Capital punishment was abolished in July 1976.**

Between 1976 and 1984, the Ministry continued to pay $200 per month for the services of the provincial executioner with total cost amounting to $20,000. We were advised that as a result of our audit, these monthly payments had been discontinued effective January 1985.

Transcript Expenses

The Grange Royal Commission paid over $120,000 to a private firm for a total of 15 copies of the transcripts of hearings surrounding the deaths at the Hospital for Sick Children. The Ministry determined that it

needed two copies for its own use and, as a result, negotiated with the firm to obtain these copies at a cost of $60,000. We felt that in this instance due regard for economy was not observed in obtaining the required number of transcripts.

On October 25, 1985 the Ministry replied as follows:

Courtroom Scheduling and Use

"The Ministry agrees with the Provincial Auditor that a reduction of the case backlog in all courts is an important matter.

"The Attorney General has publicly stated his concern about the reduced number of judges available to conduct trials during the summer months. However, the resolution of this matter is not simple. Several years ago, the Supreme Court judiciary were available for trials during two summers; yet, because of the difficulty of getting all witnesses, litigants and counsel involved in a case to attend during the summer months, the number of cases scheduled was only slightly higher than the number currently heard. However, the possibility of expanding the number of judges conducting trials during the summer months, as recommended in the Solomon report, is a subject of ongoing dialogue between the Ministry and the judiciary.

"Full courtroom utilization is influenced by a variety of factors beyond the Ministry's control. Frequently as the date of trial nears, the parties decide to settle their civil cases or plead guilty in criminal matters. Such sudden decisions do not allow the trial coordinators enough time to re-schedule other cases. Thus, if a reasonable number of cases is scheduled for a courtroom and the parties settle or plead guilty, empty courtrooms result. On the other hand, if the trial coordinators significantly overbook the number of trials scheduled for the existing courtrooms, then inevitably members of the bar and the public will be awaiting their turn with little likelihood of having their case tried on that day. Such inconvenience and waste of time to the public and the legal profession is very frustrating to them and results in their having to re-appear on another date.

"The statistics on which the auditor's observations are based deal with hours during which court was sitting and not with scheduling hours. The current statistical gathering system, in cases where the court disposes of a matter in less time than has been scheduled, shows that remaining

scheduled time as unutilized courtroom hours. The Ministry suggests that both sitting and scheduled hours should be available for a meaningful analysis.

"The numbers cited by the Auditor in the report show that when courtroom sitting days are considered (as opposed to courtroom days scheduled) and courtrooms which were used for half a day or less are discounted (since the parties must have settled or pleaded guilty) then 87% of the courtrooms in York are occupied and 83% in the five other locations audited are used. The Ministry feels that the 87% utilization rate is quite reasonable for York. The 83% for the other locations is also reasonable, given that it is difficult to transfer cases between the five locations audited.

"In order to finetune the scheduling system in York, the computerized case management system mentioned in the Provincial Auditor's report has progressed to the point where Management Board approval has been obtained and design work has commenced."

Additional Courtroom Facilities

"In its Management Board submission for approval to construct additional courtrooms for the Supreme and District Courts in Metropolitan Toronto, the Ministry provided all information requested by the Board. The 87% utilization rate of courtrooms in Supreme and District Courts in York referred to above clearly indicates that under current operating circumstances the only alternative was an addition to the courtrooms in order to cope with the backlog in cases."

Accounts Receivable

"The Ministry collected 87% of all provincial fines assessed in 1984/85. This level of collection was achieved whilst recognizing that the methods of collection enforcement available to the Ministry are precisely regulated by law and heavily dependent on police cooperation.

"The assessment of a fine is part of the sentencing process when an offender is found guilty and the Ministry is highly conscious of the need to ensure that that sentence is carried out, namely that the fine is paid.

"The Ministry, therefore, is constantly investigating

effective fine collection measures. Of those recently introduced, the most significant innovation is the proposal to deny the renewal of automobile licence plates for non-payment of parking fines. The Ministry has been working closely for some years with the Ministry of Transportation and Communications in the development of such a system that would facilitate the collection process for such fines."

Executioner Fees

"The individual who acted as the executioner for Ontario was initially engaged in 1953 by the Sheriff of the County of York and paid a retaining fee. The engagement of the executioner on behalf of the Province fell within the broad authority of the Sheriff to ensure enforcement of orders of the Court. The costs related to the position of executioner were recovered from the Province.

"When the Province assumed responsibility for the Courts in 1968, the Sheriff did not discontinue the retaining fee to the executioner.

"In August 1984, a new Sheriff was appointed for the Judicial District of York. He discovered the situation and decided that the payments were inappropriate in law and directed that they be discontinued. The last payment was made in November 1984 prior to the Provincial Auditor's review."

Transcript Expenses

"The Ministry's request for transcripts was refused by the Commissioner. It was, therefore, up to the Ministry to obtain the necessary copies at its own expense."

3.5 Excess Funding for Construction of the Sudbury Science Centre, Ministry of Citizenship and Culture

One segment of a recent audit of the Ministry dealt with capital funding grants for the construction of a science and mining technology museum at Sudbury (Sudbury Science Centre). Our objective was to assess the adequacy of management controls over $12.4 million in grants to the Centre.

We concluded that management controls should have been stronger. In this regard, the following was noted:

- **A severe funding shortfall in this capital project was identified by the Ministry during 1983.**

- **A management consultant's report concluded that shortcomings of the Centre's board of directors had resulted in weak management control.**
- **Original cost estimates ($22.1 million) had been exceeded at September 30, 1984 by $5.5 million.**
- **Total capital support of $7 million set by the Ministry in 1981 had risen to $11.6 million by 1985.**
- **No determination had been made as to the Ministry's total eventual investment in the Centre.**

DETAILED COMMENTARY

Overview

The Ministry encourages and supports full, equal and responsible citizenship among the residents of Ontario, in the areas of cultural, artistic and historical activity. This is done through the delivery of interrelated programs, including the provision of capital grants to cultural and historical projects.

In December, 1980 the Ministry received a proposal to construct a science and mining technology museum at Sudbury, formally known as the Sudbury Science Centre. Estimated costs were:

	($000's)
Building	15,392
Exhibits	3,600
Film	850
Administration	1,428
Big Nickel Mine	880
	22,150

The Ministry agreed to participate in the funding of the exhibits and the building (also known as the Bell Grove site). The Ministry committed $10 million from its Lottario resources, of which $7 million was to be used for capital construction and $3 million for the establishment of an endowment fund. This fund, by generating interest revenue, was to provide assistance towards the Centre's operation. The balance of the estimated cost was to be funded by the Federal Government, the City of Sudbury and donations from the private sector.

Funding Shortfall

The Ministry advised the Centre in August 1981 that, even if there were cost overruns associated with this project, there would be no further capital funding available to the Centre from any source within the Ministry. They also advised that the funds granted were based on the project design and schedule presented and that any substantial changes to either element would require written approval from the Deputy Minister.

During 1983, the Ministry identified a severe funding shortfall on the capital project which occurred because:

- Fund-raising targets were not realized and the Federal Government did not fully match the provincial contribution of $7 million.
- Timing for receipts of contributions from the City of Sudbury and various corporations was uncertain.
- The Big Nickel site project was expanded beyond the original design.
- Construction delays caused increased overhead costs.

Consequently, the Ministry obtained approval from Management Board to change the dedication of the $3 million endowment fund to capital funds. In addition, Management Board approved further capital grants of $750,000 in June, 1984 and $864,000 in January, 1985.

An operating grant of $750,000 was included in the Estimates of the Ministry for the 1985 fiscal year and was paid to the Centre on October 22, 1984. In summary, the Ministry's actual funding for the Centre to January 15, 1985 was as follows:

	Capital ($000's)	Operating ($000's)	Total ($000's)
1981-82	1,250		
1982-83	4,050		
1983-84	4,700		
1984-85	1,614	750	
	11,614	750	12,364

Weak Management Control

In June 1984 the Ministry hired a management consultant to review the Sudbury Science Centre. **The report concluded that shortcomings of the Board had resulted in weak management control which led to inadequate funding of the Centre.**

Original Cost Estimates Exceeded/Total Costs Not Determined

As at September 30, 1984 the total project had exceeded original cost estimates ($22.1 million) by $5.5 million. As previously indicated the Ministry's capital contribution had increased from an original commitment of $7 million to $11.6 million by January 1985. **At the time of our audit, no determination had been made as to the total eventual Ministry investment in the Centre.**

We recommended that:

- the Ministry determine what its total future involvement in the Centre will be and take appropriate action;

- all future long-term capital projects of this magnitude require more effective Ministry involvement in assessing their financial viability and cost of future operation to ensure that contributions made by the Ministry are based on sound financial forecasts.

On June 19, 1985 the Deputy Minister replied as follows:

Funding Shortfall

"Release of the Fund monies was conditional on the Ministry receipt of the Board resolution accompanied by the latest cost report and operating budget forecasts. The Ministry became fully aware of the extent of the financial difficulties on receipt of this information in August 1983 and consequently the Board of Science North requested rededication of endowment funds to help address some of its financial difficulties. This rededication of funds was approved by Management Board of Cabinet.

"The Ministry position was not to fund overruns. The purpose of additional capital funding was solely to cover legitimate cost increases.

"That portion of the increase which related to the Bell Grove site represents inflationary increases and other cost increases directly resulting from a strike and a one year delay in the official opening of the facility. The balance of the cost escalation was related to a required increase in the scope of work at the Big Nickel site to put the mine in a safe working condition, administration and the addition of a three dimensional film in the Cavern. The Deputy Minister's approval was not originally requested for Bell Grove because there was no change in project scope. With regards to the Big Nickel and the film, it was Science North's intention to rely entirely upon private/corporate sponsorship. The Board approached the Ministry only after it had exhausted all potential avenues for fund-raising."

Weak Management Control

"The management consulting review identified six areas of concern. The following action has been taken:

a. The Board of Directors has been expanded and strengthened.

b. The responsibilities of the two division heads have been defined and they report to the Board's Chairman.

c. A vigorous promotional campaign has been launched.

d. A three year strategic plan has been prepared.

e. The appointment of a moderator is being deferred pending finalization of agency status.

f. Establishment of a Memorandum of Understanding is being held in abeyance pending finalization of Legislation.

"At the request of its Board of Directors, Science North will be established as a Provincial Agency with Schedule III status."

Original Cost Estimates Exceeded/Total Costs Not Determined

"Legislation to implement this change is to be presented to the Legislative Assembly in the future. The legislation will provide for a Memorandum of Understanding which delineates financial reporting and control requirements.

"The Ministry agrees with the policy enunciated within the above recommendation. It should be noted that the policy was followed in determining the Ministry's original financial contribution to the Sudbury Science Centre. The difficulties encountered by the new organization forced the Ministry to re-assess the level of its contribution and, eventually, to consider the change in status from an independent non-profit corporation to a Ministry Agency.

"No grant was made without a thorough review by Ministry staff and the results of which were eventually reviewed and approved by Management Board."

3.6 Special Assignment on Algonquin College of Applied Arts and Technology, Ministry of Colleges and Universities

On May 17, 1984, the Standing Public Accounts Committee passed a motion directing the Provincial Auditor to investigate and review the financial management and administrative systems of Algonquin College, and to report to the Committee on the efficiency, effectiveness and economy of the College's financial and administrative systems.

The two-part Provincial Auditor's report on Algonquin College was presented to the Committee in November 1984 and January 1985.

The first report focussed on the irregularities in the administration of the Financial Management Program, the Ministry overfunding of the College by $2.375 million, and the fraud by a College employee involving the Training in Business and Industry program (TIBI). The report

concluded that controls regarding the Financial Management Program were unquestionably inadequate. It stated that the control procedures for enrolment reports, although adequately designed, were not properly applied. It also identified weaknesses in the internal control of the TIBI program.

The second report dealt with a general review of the historical management of the College, and the financial and administrative systems in place. The report pointed out that the management of the College has been perceived as less than effective since the early 1970's, and identified inadequacies in internal controls.

After reviewing the two reports, the Committee called before it (in February 1985) senior officials from the Ministry of Colleges and Universities and from Algonquin College. During the hearings Committee members expressed serious concerns about the College's poor record of administration. The Committee requested the Provincial Auditor to monitor and ultimately report on the College's progress in implementing new operational guidelines and procedures. The Committee expressed the hope that some form of progress report would be made available by November 1985.

Subsequently, our Office met with officials from Algonquin College and the Ministry, and the following agreements were reached:

—The College and the Ministry would each submit reports to the Provincial Auditor by the end of June and the end of September on the status of corrective actions.

—The Provincial Auditor would present a progress report to the Committee by November 1985.

—At a future date (likely the spring of 1986), the Provincial Auditor would undertake a review of the College to confirm that corrective actions have been taken.

—The results of this review would be reported to the Standing Public Accounts Committee.

3.7 Inspection Audit at Centennial College of Applied Arts and Technology, Ministry of Colleges and Universities

The Office conducts inspection audits on an exception basis where circumstances warrant the extension of our audits of ministry activities. In view of the findings in our special audit of Algonquin College (see preceding section) we undertook to perform inspection audits of other colleges of applied arts and technology. Our first such inspection audit was at Centennial College.

Revenue of the College for the 1984 fiscal year amounted to $39.9 million, including general operating grants of $22.2 million received from the Ministry of Colleges and Universities. Expenditures for the same fiscal year totalled $38.4 million.

The objective of our audit was to assess the adequacy of financial and administrative systems and internal controls including compliance with policies and procedures. Our major conclusions and observations were as follows:

Fixed Assets

We concluded that internal controls over furniture and equipment were inadequate and that there was non-compliance with administrative policies.

- **There was no central listing of the College's fixed assets.**
- **Many departments of the College did not perform annual inventory counts nor maintain inventory listings of assets for which they were responsible.**
- **The College did not have an effective loan and transfer policy for fixed assets.**
- **Total assets on loan and the location of assets transferred within the College could not be determined.**
- **Fixed asset balances on the annual financial statements of the College were overstated.**
- **Assets were sold without proper authority.**
- **Equipment reported stolen from the College included personal computers, cameras, typewriters and video equipment.**

Expenditures

We found that internal controls over the purchase of goods and services were weak and that there was non-compliance with purchasing policies.

- **There was extensive use of confirming purchase orders.**
- **A significant number of purchases were made without obtaining the required quotations or complying with tendering policies.**
- **Most major purchases examined were not supported by written contracts/agreements.**
- **Payments made for computer programming services were up to three times greater than the cost of employing programmers on staff.**

Enrolment Reporting

Although internal controls over enrolment were generally adequate, the

College's definition of a full-time student did not comply with Ministry funding guidelines.

Internal Audit

The absence of an internal audit function may have contributed to the lack of timely identification and correction of internal control weaknesses and areas of non-compliance cited in our report.

DETAILED COMMENTARY

Centennial College of Applied Arts and Technology was incorporated in 1966. By 1985 the College had more than 7,200 full-time and 38,000 part-time students, employing up to 1,200 staff of which about 500 were part-time.

Fixed Assets

For the 1984 fiscal year, fixed assets of the College were recorded at $44.9 million, consisting of:

	($ million)
Land and buildings	29.7
Furniture and equipment	15.0
Other	0.2
	44.9

Additions in 1984 amounted to almost $1.2 million. Of this amount, $1.0 million represented purchases of furniture and equipment.

Custodianship and Recordkeeping

There was no centralized listing of fixed assets and College policy did not require an annual inventory count of fixed assets. We were informed that individual departments were responsible for periodic counts.

—**Of the 15 departments selected for our review, 10 indicated that they did not have any inventory list of their fixed assets and did not perform any inventory count.** A test of 2 of the remaining 5 departments revealed that inventory counts were not performed on a regular periodic basis and that inventory lists did not indicate the serial number or the location of assets.

—On February 24, 1983, the Chairman of the Finance and Property Committee of the Board of Governors expressed concern over the lack of a centralized listing of the College's equipment. He was advised by senior management that the College was working toward establishing a fixed assets inventory listing. As of June 1985 no such listing existed.

Until June 1984 identification tags were assigned to fixed assets as

they were received. However, because the College ran out of tags, the tagging procedures were discontinued.

Loans and Transfers

There was no centralized loan and transfer policy at the College. Of the 15 departments selected for our review, 9 indicated they had no policy in their departments regarding loans and transfers of assets.

We were unable to determine the number of assets on loan to staff or outsiders, as the College had no centralized system to record the movement of assets.

—Using available departmental records, our random confirmation of assets indicated that some were located outside of the College's premises. **Assets such as computer equipment were loaned to staff and in one case to a consultant for over a year.**

—A follow-up physical inspection at one department revealed that 2 dictaphones could not be found in the location confirmed by the department 2 days previously.

Using purchase records we spot-checked 20 items, such as computer terminals, printers, modems and other computer and video equipment. We could not locate 5 of the 20 items. However, after discussions with department officials, we determined that 2 of the 5 were on loan.

Dispositions and Reporting

Our review of the fixed assets at the College showed that there was no reduction of asset balances shown on the financial statements for dispositions, other than sales proceeds, during the year.

—Notes to the financial statements indicated that proceeds from sales of fixed assets were credited to the fixed asset accounts. **This accounting policy had in effect created an overstatement of the fixed assets balance in the financial statements of the College. The total overstatement could not be determined because of deficiencies in cost records. However, in a test of 10 assets sold during the period 1981-82 through 1984-85, we estimated that at least $500,000 had not been removed from the fixed asset balance. This estimate represented the difference between the original cost of these assets and the sales proceeds.**

We observed that the College had no written policy specifying the procedures to be followed for selling assets declared surplus. We were informed that the normal practice at the College was to sell surplus assets through the Purchasing Department. However, in a review of the sales of five surplus assets during 1984-85, we noted that the Purchasing

Department had not been involved in the arrangements for three of these sales. We were unable to determine whether the user departments had followed adequate procedures in selling assets to ensure that the College obtained the best price.

Four of the previously mentioned five sales were made directly by user departments instead of through persons independent of their departments. This did not comply with the College policy which required that the Vice-President, Administration be informed. The proceeds for the above sales of items such as radiators and disk drives amounted to $6,400.

Such items as personal computers, printers, calculators, cameras, typewriters, a video player and other equipment were reported stolen from the College. Our examination of incomplete insurance files for the 1983 and 1984 fiscal years indicated that at least $50,000 of such items had been reported stolen in the two years.

—One department head estimated that items stolen from the department averaged approximately $3,900 per year. However, **other departments did not provide any estimate of stolen assets and we could not form an overall opinion on the extent of assets stolen from the College.**

We were informed by senior officials of the College that they planned to implement a phased-in approach to establishing a fixed assets ledger with related asset controls.

Expenditures

The expenditure of Centennial College for the 1984 fiscal year, excluding ancillary operations, was $38.4 million. Of this amount, salaries and employee benefits totalled $27 million and other expenditures amounted to $11.4 million.

Purchasing

We selected 66 purchases made in 1984-85 for our review. **Of the 66 purchases, 21 involved confirming purchase orders for commitments made by various departments. In some cases, payments had been made to suppliers before purchase orders were issued by the Purchasing Department.** This practice did not conform with the College's policy of requiring all purchase commitments to be made through the Purchasing function.

—An additional test of 1984-85 purchases from one major supplier revealed **at least 34 instances where purchase orders were dated subsequent to the invoice dates and delivery of goods or services.** The total purchases from that supplier in the year amounted to over $2 million.

We noted that 11 of the 66 purchases, which had amounts over $3,000 but

less than $15,000, did not have a minimum of three written quotations as required by the College's policy. Nine of the 66 purchases were for amounts over $15,000. Four of the nine did not comply with the College's tendering policy.

—We were advised that the President had the authority to waive tender requirements in his capacity as Secretary-Treasurer of the Board of Governors. In three of the above four cases the President had waived the tendering requirements. Our examination of the College's Policies and Procedures Manual issued in February 1983 did not reveal any provision for exemption from tender for major purchases.

Our concern was that in following the above practice, major purchases of goods or services would by-pass the normal purchasing policy of the College without necessarily being reviewed by the Board of Governors.

The Board of Governors had not been supplied annually with information relating to single source suppliers as required by policy. At the time of our audit the College did not maintain records or listings that specifically identified single source suppliers.

—In the absence of such a list, we selected 10 single source suppliers of goods or services for review. Total payments to these suppliers for the two years ended March 31, 1985 amounted to approximately $7.3 million. Considering the dollar value and nature of these services, including consulting, personnel and EDP, we expected to find written agreements between the College and suppliers. However, no agreements existed for 9 of the 10 suppliers.

—Two of the preceding suppliers, with a combined total payment of about $1 million for the 1985 fiscal year, were involved in computer programming for various systems of the College. However, we noted that there were no written terms of reference, project specifications or requests for proposals from different suppliers. In addition, there were no timetables for completion of all phases of these projects nor were total costs established.

One of the preceding suppliers had been providing programming services to the College for about 10 years with 5 programmers working on a full-time basis. The supplier billed the College approximately $500,000 in the 1985 fiscal year for its programming services. For two of the five programmers, the College was charged in excess of $133,000 each. The cost to the College was up to 3 times greater than the maximum salary rate for a comparable classification listed in the College's Collective Agreement with the Ontario Public Service Employees Union.

Enrolment Reporting

The operating grant of the College is derived from Enrolment Reports submitted to the Ministry of Colleges and Universities. Funding in each year is based on the audited enrolment reported in the previous two years. The Ministry of Colleges and Universities issues annual guidelines to all colleges for completion of the Enrolment Reports. The guideline also specifies requirements for the audit of the reports by external auditors of the College.

Full-Time Student Criterion

The system in place at the College calls for a cut-off level of 10 credit hours for determining full-time student status. However, this cut-off criterion does not conform to the Ministry's funding guidelines which defines a full-time student as one who carries a course load of at least 66 2/3 per cent of the normal course load for the approved program.

For example, in the first semester of the nursing program, a normal course load carries 25 credit hours. Thus, a student would have to carry about 17 credit hours to be considered as full-time under the Ministry's guidelines instead of the 10 as used by the College.

The application of the 10 credit hours cut-off could lead to misreporting of students under the full-time, part-time categories and affect the funding of the College in the future. We were advised that the College was aware of the situation and was in the process of developing a new system that would follow the cut-off criterion established by the Ministry.

Other Matter

Guidelines for reporting enrolment for funding purposes were issued by the Ministry to the colleges. Guidance for auditors to express an opinion on the enrolment report was included in the guidelines. To support the auditor's opinion, the Ministry recommended the application of statistical sampling techniques. We felt that instructions concerning these techniques should be clarified, as they are subject to various interpretations which could have a significant effect on funding.

Internal Audit Function

The organizational structure of the College provided for an internal operations audit position. However, this position had remained vacant for some years.

In view of the findings in our report **we felt that the reinstatement of an internal audit function would have greatly assisted in the effective management of the College.** We suggested that ongoing internal audit assessments of systems and controls would provide a basis for positive change and the assurances needed for overall management control.

A number of recommendations dealing with the preceding matters were made to the College.

On October 24, 1985 the Deputy Minister replied as follows:

General

"We have reviewed the findings of your report and concur with the report and its recommendations . . .

"We are pleased to note that the College has agreed to the implementation of what we consider to be appropriate corrective action for each of the audit recommendations. Furthermore, in the case of fixed assets systems, the Ministry will be taking an initiative regarding policy formulation, and will encourage further efficiencies through the joint development of systems among colleges.

"The College plans to submit follow-up reports to the Ministry describing the progress towards completion of the action steps showing the step, items planned, items completed and items yet to be completed. The College is committed to doing this on an approximately quarterly basis, with submission of the first report by January 31, 1986. The Ministry will ensure that these follow-up reports are received and will monitor them against . . . commitments . . . This will involve obtaining appropriate explanations for any variances noted."

Fixed Assets

Custodianship and Recordkeeping

"In consultation with the college community, MCU will develop system-wide standards on the recording and control of fixed assets. The policy will include, but not necessarily be restricted to, inventory counts, central recording, tagging and circulation of assets.

"MCU will develop a policy directive by 1 April, 1986. This directive will establish a deadline for the colleges for implementation of the policy.

"Centennial College will implement appropriate policies and procedures for these recommendations by 1 April, 1987."

Loans and Transfers

"The College will establish an adequate equipment-loan policy with mandatory procedures for implementation by 1 April, 1986."

Dispositions and Reporting

"The College will amend the accounting policy so that original costs of assets disposals be removed from the financial statements. The policy will be effective on the statements as of 31 March, 1986.

"The College will implement the recommendations (regarding the sale of assets) by 15 December, 1985.

"The College will implement mandatory procedures for the reporting of thefts on a timely basis, so that records can be updated promptly, by 16 December, 1985."

Expenditures

Purchasing

"The College will update the Purchasing and associated Tendering Policies (including any provisions for exemption from tendering) so as to reflect properly the current operating procedures, as amended by revised spending limits and mandatory procedures. The preliminary draft was completed on 30 September, 1985. After refinement of the draft, Board approval is to be obtained by 30 December, 1985, for implementation by 1 February, 1986.

"The College will implement a Sole-Source System which will involve the reporting, at least annually, of information relating to one source suppliers to the Board of Governors. A report was submitted to the Finance-Property Committee of the Board on 26 September, 1985. Board approval is to be obtained by 30 December, 1985, for implementation by 1 February, 1986.

"The College will establish a formal system for the acquisition and control of major professional services by 31 December, 1985.

"Starting 1 January, 1986, the College will assess all current professional services for academic, administrative and ancillary computing. Starting 1 April, 1986, appropriate changes will be made for those projects deemed to be in a maintenance-mode."

Enrolment Reporting

Full-Time Student Criterion

"The new Ministry Guideline will require the College to correct errors. In addition, the College will ensure that the NEW-MIS system at the College identifies partial-load

students according to Ministry guidelines, by 1 September, 1986."

Other Matter

"The Ministry has issued a new statement of guidelines for auditors (September, 1985) which indicates that all errors detected in the statistical sample are to be corrected. These guidelines are issued annually and will continue to clarify any problems of misinterpretation which may arise."

Internal Audit Function

"The College will fill the vacant position of Operations Auditor by 31 December, 1985."

3.8 Deficiencies in Inspection Procedures re Private Schools Offering Credit Courses, Ministry of Education

One segment of an audit of the Ministry involved assessing the adequacy of controls, in the Central Ontario Region, relating to the inspection of private schools offering credit courses. **We concluded that controls at the Central Ontario Region Office required significant improvement.**

Overview

In Ontario there are approximately 500 private schools, and of these about 240 offer credits toward the Secondary School Graduation Diploma (SSGD) or the Secondary School Honours Graduation Diploma (SSHGD). Supervisory officers from the Ministry's regional offices inspect private schools offering credit courses to confirm that satisfactory instruction has been given before diplomas are issued.

Inspections in the Central Ontario Region

In the Central Ontario Region there were 360 private schools, 162 of which offered credit courses. Expenditure on the inspection of private schools in this region was approximately $200,000 for the 1985 fiscal year. The inspections followed criteria established in the "Procedure Manual for Inspection of Secondary Private Schools". Our audit focused on the inspection files at the Central Ontario Region.

In our review we noted the following:

- **Inspections did not cover all areas subject to review.** For example, eleven inspections did not examine student records and fourteen inspections did not include a review of examination papers, student answer papers and marks as required. No documentation existed to explain why certain areas were omitted in these inspections.

- **No documentary evidence existed for nineteen inspections** to support the weaknesses identified or conclusions reached.

- **No documentary evidence existed for eight inspections** to indicate that deficiencies/recommendations noted in the previous visit were followed up to ensure satisfactory disposition.

No guidelines were established to determine the extent to which deficiencies would be allowed to exist before a private school was denied the privilege of offering credit courses. For example, fourteen schools lacked evidence to confirm a minimum of 110 hours of instruction per course credit as required by the Ministry.

We recommended that:

(i) inspections be adequately performed to cover all Ministry requirements;

(ii) the documentation in inspection reports be improved; and

(iii) guidelines be developed to assess the extent to which deficiencies would be allowed to exist in a private school before the school was denied the privilege of offering credit courses.

On August 23, 1985 the Deputy Minister replied as follows:

Inspections

"All components which are outlined in the inspection manual are not all examined or commented upon during every inspection. It is accepted that an inspector may apply professional discretion and judgement in conducting an inspection. This may have the result that not all tests, examination papers and marking schemes need to be reviewed every year in all cases. The inspector's emphasis is given to particular aspects of a course or program."

Inspection Documentation

"There is a concerted effort to keep written comments about a program inspected brief and concise. The report is intended only to be a summary of the significant points discussed with the person in charge of the program. It is agreed, however, that where specific suggestions for program improvement are recorded that subsequent reports should include comments concerning the degree of compliance by the school. This matter is one which will be discussed during a private school inspection seminar planned for the Inspectors of the Central Ontario Region on September 10 and 11, 1985."

Guidelines

> *"Private schools are required to conform to programs as described in the Ministry curriculum subject guidelines and the course credit requirements as specified in policy Circulars H.S. 1 and/or Ontario Schools: Intermediate and Senior Divisions. If one or both of these requirements are clearly and continuously being violated, credit for the course or courses will not be recommended. If a school timetable satisfies the required number of scheduled hours of study the inspector's written comments will not necessarily include a comment on the matter of scheduled time.*
>
> *"The final recommendation that a course be considered valid for credit must be left to the professional judgement of the inspector concerned."*

3.9 Weaknesses in Procedures Relating to Curriculum Matters, Ministry of Education

As part of our audit of the Ministry we reviewed curriculum-related matters at the Central Ontario Region. Our objective was to assess the adequacy of procedures to monitor and report on:

- development of curriculum guidelines;
- curriculum implementation at the school board level; and
- curriculum review.

The Ministry and the school boards work together on curriculum matters to ensure that high-quality educational opportunities are made available to all pupils.

We concluded that the procedures used to monitor and report on the development, implementation and review of curriculum guidelines needed significant improvement. The following weaknesses were noted:

Curriculum Development

- **Financial and other management reports did not provide adequate information to monitor and control projects relating to the development of curriculum guidelines.**

Curriculum Implementation and Review

- **The Ministry received limited assurance of the quality of curricula implemented since:**

  — **Neither the Central Ontario Regional Office nor other ministry**

staff monitored the progress of curriculum implementation at school boards in the Region.

— Provincial Review recommendations made at the board level were not followed up by the Ministry.

— Provincial Reviews were not representative of the overall quality of curriculum implementation.

DETAILED COMMENTARY

Overview

The objective of the Education Programs Division of the Ministry, in cooperation with the school boards, is to ensure that educational policies and programs, meeting the needs of all pupils in publicly-supported elementary and secondary schools in Ontario, are developed, implemented and reviewed.

Curriculum Development

The development of educational policies and programs is one of the responsibilities of the Curriculum Branch. These policies and programs are outlined in curriculum guidelines sent to the school boards. For example, the guideline for "English (Senior Division) three academic courses" was distributed in September 1984, and a guideline entitled "Computer Studies, Intermediate and Senior Divisions" was distributed in 1983. A school board's task is to assist the schools in its jurisdiction to use the guidelines in developing courses of study that are specifically designed to meet local needs and circumstances. At December 31, 1984, there were approximately 100 curriculum guidelines in various stages of development. The development time of guidelines ranges from approximately 2 to 5 years. Expenditure on curriculum development for the 1985 fiscal year was $5.2 million.

Curriculum Implementation

Implementation of educational policies and programs is primarily the responsibility of school boards. The school boards are assisted in the implementation process by six regional offices. The offices review educational practices within school boards and provide leadership to school systems in implementing and evaluating provincial policies and programs. The education officers in the regional offices play a major role in the fulfillment of these objectives. For the 1985 fiscal year the expenditure of regional offices for all activities was approximately $13.6 million.

Curriculum Review

The Provincial Review process began in 1977-78 as a means of checking curriculum implementation and identifying the need for developing new and revised curriculum guidelines. In addition to reviews

of curriculum guidelines, the process has evolved to include audits of the school boards' procedures and exploratory probes into areas where policy does not exist but may be required.

Provincial Reviews are undertaken for a sampling of school boards across the Province. Review reports are issued to school boards, Ministry branches and other appropriate educational organizations in order to improve programs and policies at various levels. Reviews normally take 18 to 24 months to complete.

For the period 1977 to 1984, 52 Provincial Review reports were issued. Of these, 18 pertained to the review of the implementation of curriculum guidelines.

Curriculum Development — Project Cost Accounting and Control

The information system, for accumulating and reporting project expenditures and project status, did not provide senior management in the Curriculum Branch with adequate information to monitor and control progress of curriculum guideline projects. Specifically:

- Prior to April 1984, the costs of individual projects could not be identified without extensive manual compilation from various source data. The newly-introduced project cost report, which included actual expenditure for the immediate past year as well as the comparison of budgeted and year-to-date actual expenditure for the current year, provided useful information to management. However, neither this new project cost report nor the various reports generated by the Financial Information System (FIS) indicated the accumulated cost from the commencement of the project. These reports also did not indicate total approved budgeted expenditure from start to completion for each project. **It was difficult for project management to monitor and control costs effectively if the approved total budget and actual accumulated costs were not readily available.**

- The newly-introduced project status report was an improvement in the Curriculum Branch's control over projects because it identified each project by development phase, such as "under development", "revision", "editing", "printing". However, the report did not indicate the dates at which projects entered and left the various phases. The report also did not indicate the reasons for delays in the projects. We noted that **in four of five curriculum guideline projects reviewed, there was an average delay of 15 months between the estimated and actual completion dates.** This delay was the equivalent of 44 per cent of the average total time spent on each of the four projects.

To ensure proper control and meaningful assessment of the

progress of projects, the various management and financial reports should be modified to allow the comparison of actual resources expended and results achieved with those planned. Variances from plans should be analyzed and explained, and corrective action taken where necessary.

Curriculum Implementation

Based on our review and discussions with education officers and other officials in the Central Ontario Regional Office, we noted the following:

- It is generally assumed that the implementation of curricula developed by the Curriculum Branch is primarily the responsibility of the school boards. Provincial Review is the principal tool used by the Ministry to assess the quality of curriculum implementation. **Although the Regional Office assists the school boards in curriculum implementation, neither the Regional Office, nor a group designated by the Ministry, monitored the progress of curriculum implementation at school boards.**

- **The need for more effective regional curriculum implementation programs was noted in two Ministry publications:**

  — A 1981 research study entitled "Curriculum Implementation" made the following comment when discussing the main principles which underlie an effective curriculum implementation process:

  "... the plan must include monitoring and gathering information during the process which is used to assess progress and to address problems which are encountered."

  — In the Ministry's publication 'Update '84', a retrospective report on initiatives set out in Issues and Directions (published in 1980), the following comment was made:

  "... the review of provincial policy for program and policy improvement, for assisting in implementation, and for monitoring compliance with legal requirements will be the major activity of the Ministry of Education's regional offices."

Curriculum Review

The Provincial Review process was deficient as the Ministry did not follow up to ensure that recommendations made at the school board level were acted upon. **To ensure an effective Provincial Review process, recommendations should be followed up by the Ministry.**

Provincial Review results were based on an assessment of the implementation of one selected curriculum at a sample of school boards. Therefore,

the results were not representative of the overall quality of curriculum implementation.

We recommended that the Ministry reassess the adequacy of assurance provided by regional offices and Provincial Reviews on the curriculum implementation process. We also recommended that the Ministry implement appropriate measures to ensure that school boards demonstrate accountability to the Ministry for the assigned responsibility of curriculum implementation.

The following response was received from the Deputy Minister on August 23, 1985:

Curriculum Development

> *"It is agreed that improvement was required in the monitoring process regarding the development/costs of curriculum document development projects. During the fiscal years 1984-85 and 1985-86, several steps were taken to create an efficient program, useful to Education Officer project managers and the Director. These include assigning individual ASN's to each project and the purchase of software LOTUS 1, 2, 3. A monthly report is now issued to the project managers listing the individual projects with the actual and expected costs.*
>
> *"In addition to the above, a quarterly report is prepared indicating the development/production status of each project. This report is used internally as a management tool and is distributed to regional offices."*

Curriculum Implementation and Review

> *"Curriculum implementation is primarily the responsibility of school boards. Reviews of curriculum implementation are conducted in many ways. In order to increase the effectiveness of the curriculum review operation an additional mode is being developed.*
>
> *"A proposal is being prepared for a pilot project in 1985-86 and full implementation in 1986-87. This project, 'Assessment of Student Achievement Program,' is designed to obtain information about student achievement and program implementation at the provincial and school board levels. This program will be based on curriculum subject guidelines and will provide indications of the extent of implementation. Annual assessments of student achievement in selected grades and in selected subjects are planned in both official languages.*

"A provincial report for each selected subject as well as a local report by each board will provide information on implementation and follow up plans at each level."

3.10 Review of EDP Controls, Ministry of Education

An audit of the Ministry's Data Processing Services Branch (DPSB) and School Board Services Unit (SBSU) dealt with various aspects of EDP activities and related controls. Our major conclusions and findings were as follows:

- **Controls over the provision of EDP services and human resources were generally satisfactory. However, the continued use of contract consultants was uneconomical and disregarded provisions of the Ontario Manual of Administration.**
- **Compliance by SBSU with government and ministry systems development policies and procedures was excellent. While compliance by DPSB was generally satisfactory, the implementation of computer program changes required stricter control.**
- **Overall, security controls over EDP systems and data were adequate. However, sensitive information contained on magnetic tapes stored in the Ministry of Government Services data centre was not properly protected from unauthorized access.**

DETAILED COMMENTARY

Overview

Data Processing Services Branch (DPSB)

The DPSB is responsible for providing data processing services to both the Ministry of Education and the Ministry of Colleges and Universities. The services encompass computer system development, maintenance and operations as well as the provision of advice and guidance on the "state of the art" technology. During the 1985 fiscal year, DPSB had an expenditure budget of $5.8 million, 80 per cent of which was charged back to the user branches.

School Board Services Unit (SBSU)

The Ministry has provided data processing services to school boards and schools through the SBSU since 1969. The objectives of SBSU are:

—to develop, install, maintain and support common applications for school boards' use on a license fee basis;

—to provide and support a data communications network, linking the computers at school boards to the Ministry's and Queen's Park computing facilities; and

—to negotiate and maintain a master agreement for the acquisition of computing equipment at discounted prices.

As of December 1984, thirty school boards were using one or more of the applications supported by SBSU. These boards had their own computer equipment linked within the network. Investments in computing equipment and systems software within the network have totalled in excess of $12 million.

Budget estimates approved for SBSU for the 1985 fiscal year were $2.2 million net of recoveries of $1.1 million. The unit has an approved staff complement of 36 and employed 14 additional contract staff.

Use of Contract Consultants — DPSB

The Systems Services Section of DPSB had a complement of 33, including 26 who were employed on system development and maintenance tasks. Of these 26, 12 were permanent staff and 14 were contract consultants.

We questioned Management concerning the extensive use of contract consultants. We were advised that because of hiring restrictions, the only way program goals could be met was to employ consultants. Secondly, the work load in the various sections was largely predicated on the approval of clients' budgets. This placed DPSB in a reactive situation since no firm work plans could be approved until the budgets were finalized.

We appreciated Management's dilemma. However, in our opinion, past experience for systems maintenance needs, coupled with long range plans should provide a framework for estimating future personnel requirements. **The extensive use of contract personnel for performing systems tasks was, in our opinion, uneconomical.**

During the 1985 fiscal year, approximately $835,000 was spent on hiring contract consultants. **Had this work been accomplished by permanent staff, we estimated a potential annual saving of approximately $250,000.**

We examined 17 of the 32 contracts issued during the 1985 fiscal year for programming services in DPSB. All contracts selected for review were properly tendered. While the lowest bid was not always selected, justification was given for the selection. Of the 17 selected contracts, 11 had a previous contract with DPSB and their new hourly rates were generally at a reasonable increase.

Three of the 17 contracts examined had been renewed for more than two consecutive years. In one other instance a back-to-back contract was awarded to a consultant because of his experience with a particular Data Base Management System. This experience was gained entirely while working as a consultant with the Ministry since 1981.

The Ontario Manual of Administration (OMA) states, ". . . to ensure that a consultant is not placed in a position where . . . he/she might enjoy an unfair competitive advantage, the ministry shall . . . not permit a consultant to gain a monopoly for a particular kind of work, e.g. retaining expertise or know-how developed at government expense."

The OMA also states, "Ministries shall not use consulting services in a quasi-employee or quasi-supervisory role to supplement ministry staff on a temporary basis."

We recommended that the Ministry reexamine the rationale for using contract consultants versus permanent staff.

Use of Contract Consultants — SBSU

Out of a total of 50 systems staff, 43 were working on the various development and support projects as at March 1, 1985. Fourteen, or approximately one third of the 43 were contract staff employed on systems development work and user support.

Our review of the Unit's practice of acquiring resources revealed that a consultant had worked on the Student Administration System since April 1981. Also, we noted instances where no justification was supplied for the selection of a consultant who was not the lowest bidder in the tendering process.

We were informed that a proposal put forward to senior management, to convert 10 fee-for-service contracts to classified positions, was not approved because of staffing restrictions.

Compliance with Systems Development Policies

SBSU had developed an excellent rapport with their users and these users played a leading role in initiating the School Board Integrated Personnel and Payroll System (IPPS). This system, started in 1984, will take four years to complete at an estimated cost of $1 million.

We examined the documentation produced to date for this system and concluded that SBSU had complied with all requirements of both the Ontario Manual of Administration and the Ministry's formalized procedures for systems development. Since 37 users were involved, SBSU deserved commendation for the work accomplished in this area.

Compliance by DPSB was generally satisfactory. However, we

reviewed systems work requests in order to determine if controls over changes to existing application systems were adequate. **Although all system development work requests tested were initiated and properly approved by the user management, we were unable to trace the work requests to the resulting program changes done by the DPSB staff. In addition, we were unable to locate formal user sign-offs and approvals for application maintenance projects.** Management stated that they were reviewing the change control procedures and they would address these deficiencies.

Security Controls — DPSB

In accordance with Management Board of Cabinet's guideline on Information Technology Security, the Ministry had developed sound policy statements, standards and a contingency plan for the Ministry's applications processed at Queen's Park Computing Centre. Notwithstanding this excellent work, the following security matter was in need of improvement.

The Resource Access Control Facility (RACF) is an IBM software product that provides access control to systems and data in the following manner:

—identifying and verifying system users;

—authorizing access to system resources; and

—logging unauthorized attempts to access the system or a protected resource.

RACF requires resource profiles (descriptions of the protected resource) be defined to the system by a system user.

We examined 22 production master files of various applications to test the extent to which RACF protection had been implemented. These files belonged to the 12 most critical systems as defined by the Ministry.

Our examination revealed that only 5 of the files were defined as restricted files and thus protected against unauthorized access. Even those files under the RACF protection were not completely protected. For example, we were able to extract information, using a non-ministry user identification, from a RACF protected file tape which was part of the Ontario Student Awards Program (OSAP). The information that we obtained included financial and personal data concerning OSAP applicants, their spouses and their sponsors.

The following comments were received from the Ministry on October 24, 1985:

Use of Contract Consultants — DPSB and SBSU

"It is the SBSU's standard practice to completely document the tendering and selection of consulting staff. While there

were a few instances where documentation was not in the proper format, SBSU management was fully aware of the process and approved the selections.

"The ministry acknowledges that contract staff for ongoing support and maintenance should be limited and will be reviewing the possible conversion of contract dollars to complement staff to accomplish this.

"ODOE (Other Direct Operating Expenditure) funds were converted to complement staff positions as a result of a program approved by Management Board two years ago and the ministry is still, within budgetary and complement limitations, endeavouring to resolve the issue."

Compliance with Systems Development Policies

"We were pleased to note that compliance by SBSU with systems development policies and procedures was found to be excellent. Control over the implementation of computer program changes in DPSB has been reviewed and improvements will be made."

Security Controls — DPSB

"Part of the problem with regard to the RACF protection was a fault in the systems documentation provided to the ministry. Problems which occurred as a result of this error have been resolved. DPSB is currently doing a full review of the RACF protection levels."

3.11 Questionable Expenditures, Ministry of Energy

Net expenditure of the Alternative Transportation Fuels and the Energy from Waste/Biomass Activities (Alternative and Renewable Energy Program) totalled $8.5 million for the 1985 fiscal year. Regarding these Activities, we assessed:

- the adequacy of internal controls, including compliance with established policies, procedures and legislation; and
- the adequacy of management controls to ensure due regard for economy and efficiency.

We concluded that internal controls, including compliance, were satisfactory. For the most part, projects were properly selected, based on established criteria, and procedures were in place to regularly monitor and evaluate the results of the projects. Consulting services were acquired in accordance with the Ontario Manual of Administration.

Management controls were generally adequate to ensure due regard for economy and efficiency. However, we noted the following questionable expenditure items:

- **Approximately $70,000 was paid to a company for the installation of special lighting in its greenhouses. However, this funding did not meet the objectives of the Program.**
- **A company was paid $390,000 for the construction of a gasifier which was neither installed nor used to demonstrate an alternative fuel source.**

DETAILED COMMENTARY

Background

The overall objectives of the Alternative Transportation Fuels Activity have been the replacement of petroleum transportation fuels with indigenous energy alternatives, and the promotion of alternative transportation fuel technologies for Ontario industry.

The overall objective of the Energy from Waste/Biomass Activity has been to promote the development and use of Ontario's renewable energy resources from wood, wood wastes, municipal waste and agricultural waste.

For our review we selected 24 out of approximately 90 projects. Costs from inception to February 1985 for the 24 projects totalled approximately $7.9 million, of which approximately $1.2 million was spent during the 1985 fiscal year.

Payment for Greenhouse Lighting

In November 1984, the Ministry provided a grant of $70,000 to the owner of a greenhouse specializing in the growth of roses. This funding was provided through the Ministry's general demonstration fund to pay part of the installation cost of high intensity discharge lighting and the supporting hydro line and substation. The remainder of the approximately $314,000 total cost was provided by the owner ($233,000) and Ontario Hydro ($11,000).

Senior management informed us that in order to qualify for funding, certain criteria had to be met. **In our review of the Ministry's funding of this project, we found that such criteria were not met.** Specifically:

- **The project was not innovative.** Similar lighting, installed in 1979 by the owner in one of his other greenhouses at his own expense, was still in operation. The current grant was provided to enable the owner to extend such lighting to his other greenhouses, because the existing electrical service did not have sufficient capacity to accommodate the additional load required by this lighting.

- **The project did not result in a shift from one form of energy to another, i.e. there was no conversion from oil or gas to electricity.**

- **The project was not given any publicity, nor was there a formal press release, to inform the public. Such practices are usual for demonstration projects.**

Funding of Gasifier Project

In March 1983 the Ministry signed an agreement with a company to provide approximately $1.5 million over 5 years for a project which involved the manufacture, installation and operation of a 350 kw wood gasifier and engine generator system. This gasifier was designed specifically to burn wood wastes in order to generate electrical power. Under the Canada/Ontario Conservation and Renewable Energy Demonstration Agreement (CREDA), 50 per cent was recoverable from the Federal Government. Of the total of $390,000 advanced to the date of our review, $195,000 had been recovered under CREDA.

For the project to be viable, a site had to be identified having a sufficiently high and constant demand for power throughout the year in order to be economically feasible. The Ministry identified a site in a community in Northern Ontario which they believed satisfied all requirements.

Prior to the signing of the agreement with the company, the Ministry hired the services of a consulting firm at a cost of approximately $50,000. In a report dated February 1983, the consultants pointed out certain deficiencies in the proposed site, such as:

—significant fluctuations in the demand for power;

—plans by the major user in the community to shut down part of its operations;

—significantly lower power costs than other remote communities; any savings, therefore, would be marginal.

In spite of these deficiencies, the consultants recommended that the Ministry proceed with funding the project on the basis that it would provide a breakthrough in gasification technology.

Subsequently, the Ministry signed an agreement with the company with the proviso that if the site was deemed to be inappropriate, the company would be responsible for identifying an alternative site. If such an alternative site could not be identified, the company would be required to sell the system and repay the Ministry 50 per cent of the selling price, net of operating costs.

After construction had begun, the company determined that the demand for

power at the site greatly fluctuated, thus making the project uneconomical. As a result the site was rejected and alternative locations were sought. However, none could be found which satisfied the requirements for installing the gasifier.

We understood that the company was in the process of trying to find a purchaser for the gasifier.

We were subsequently notified by the Deputy Minister that:

"With several hundred projects each year, many involving new or experimental technologies, it is not surprising that one or two would encounter difficulties.

a) Respecting the Greenhouse, I would agree that this project should not have been allocated as part of the Alternative Energy Activities nor considered against the criteria which were normally used for this area. In our restructured programs for 85/86, the Energy Management Activity provides a suitable home.

b) Respecting the Gasifier, it is worth noting that a successful project requires:

—adequate technology

—a suitable site

—a willing proponent

—community acceptance

To find all of these together is sometimes difficult, and the Ministry must accept some risk of project failing. Thus, to meet its objectives of promoting appropriate technologies the Federal-Provincial Committee reviewing the projects under CREDA allowed some calculated risk. In this case, as you note, the consultant also recommended that the project proceed.

In our project review and approval process I am directing that such concerns or risks be evaluated and clearly documented, and that resulting contracts or agreements clearly anticipate the need for regular review and the possibility of cancelling a project if failure becomes evident."

3.12 More Economical and Efficient Use of Accommodation Warranted, Ministry of Government Services

Our most recent audit of this Ministry (MGS) included an assessment of the procedures in place to monitor the efficient and economical use of government accommodation. **In general, we found that procedures were adequate. However, improvements were required with regard to the monitoring of overall utilization of accommodation and compliance with Management Board of Cabinet policies. Specifically we were concerned that:**

- **Under existing relationships, there was little incentive for ministries to declare surplus space. In some instances, uneconomical accommodation costs have been incurred.**
- **MGS, as a service provider, does not monitor the ongoing use of accommodation once space needs have been assessed and met.**
- **Ministries are required to declare annually whether the space allocated to them has been efficiently used; however, this requirement has not been enforced by Management Board.**

The following matters were also noted during our review:

- **The published savings from the Metro Plan Short Term Action project were overstated by some $30 million, although almost $7 million was still realized.**
- **A major relocation project was initiated based on only two proposals. The relevant submission to Management Board did not include a valid financial comparison of the rental value of the properties.**

DETAILED COMMENTARY

Background

The government is the largest user of accommodation in Ontario, occupying some 4,430,000 square metres of owned and leased space throughout the Province. This space may be subdivided into six broad use categories:

	Square Metres
Institutional	1,772,000
Office	1,087,000
Resources Management	718,000
Judicial	383,000
Special Purpose	349,000
Employee Residence	121,000
	4,430,000

The Ministry of Government Services is responsible for the acquisition, alteration and disposition of most government accommodation. The responsibility for planning and control of accommodation is shared among several branches within the Accommodation Group as well as with ministries. Expenditures incurred by these branches for the provision of accommodation in the 1985 fiscal year amounted to $141.6 million.

Controlling the Efficient Use of Accommodation

Accountability for Accommodation Decisions

The decision-making roles assigned to MGS and the operating ministries are such that the accountability for accommodation decisions is fragmented. This makes it difficult to manage the use of government accommodation in an efficient and economical manner. The role of MGS is to provide accommodation, without charge, in response to ministry needs and to provide leadership in the development of corporate accommodation policies.

However, because accommodation is provided without charge, operating ministries are not financially accountable for their accommodation decisions. There is very little incentive for operating ministries to declare underutilized accommodation surplus to their program needs and MGS cannot plan or rearrange accommodation until client ministries make such a declaration.

Because of the time and effort needed to reacquire space at a future date, operating ministries may be reluctant to give up space until they have determined their potential program needs.

Our review of consolidation/relocation projects revealed the following instances where space was surplus or underutilized, but had not been formally declared surplus or reported to MGS by the operating ministries.

—**The consolidation of various ministries into government owned premises in Hamilton resulted in leased premises remaining vacant for periods up to 3 years, at an estimated cost of about $585,000.** This included 1,145 square metres of vacant space held by a client ministry pending possible future program use.

—**A floor in a government owned building, consisting of approximately 790 square metres has remained vacant for approximately 3 years.** The client ministry has not declared it surplus, pending possible future use.

In an attempt to provide an incentive for ministries to declare surplus or underutilized space, the Planning Branch has introduced a cost avoidance alteration program which allows MGS to fund the cost of

alterations for client ministries who reduce their space requirements or relocate to less expensive premises. At present only projects with a demonstrated 3 year payback period are eligible to be funded under this program.

Monitoring Procedures by MGS

MGS has been assigned conflicting responsibilities with regard to the accommodation portfolio resulting in inadequate assurance that government accommodation is being utilized in accordance with Management Board of Cabinet's policy.

MGS stresses its role as a service provider, and does not have mechanisms, procedures or the authority to monitor either the overall utilization of the accommodation inventory or the adherence to Management Board policies by the operating ministries.

Control by MGS over the use of accommodation is limited to its initial review of a client ministry request. At that time client needs are assessed, space is allocated based on established guidelines, and suitable accommodation provided. However, the government environment is far from static and changes in space requirements are frequent. Without periodic monitoring of space usage, control over the utilization of the accommodation inventory and compliance with Management Board policies cannot be exercised. Responsibility for monitoring the use of space has been delegated to client ministries by Management Board.

Monitoring Procedures by Client Ministries

Our review of the procedures of five ministries occupying over 47 per cent of the government's accommodation revealed that all five ministries had procedures in place to monitor and maintain records of their assigned accommodation.

The Ontario Manual of Administration (OMA) requires that each client ministry develop internal procedures and conduct periodic reviews of its assigned accommodation to ensure it is being efficiently and economically utilized in accordance with the established accommodation standards. **On an annual basis, the OMA requires each ministry to sign a declaration attesting to the fact that its assigned accommodation is being used in an efficient and economical manner.**

One ministry had developed formal written procedures for maintaining its accommodation inventory. This included a system of periodically visiting and reviewing its inventory for underutilized or surplus space. The remaining four ministries either relied on informal procedures or were in the process of formalizing their procedures.

However, we observed that the declaration contained in the Statement of Assigned Accommodation did not include a reference to the economical and efficient

use of the accommodation assigned to the ministry. Rather, the client ministries were only required to certify that the information provided by MGS accurately recorded the accommodation assigned to the ministry. **Although the OMA indicates that Management Board requires a declaration attesting to the efficient and economical use of its allocated space, the Board appears to have waived this requirement of the ministries.**

We also noted that the ministries examined did not feel they had sufficient resources to conduct periodic field visits to review space utilization. They felt that a space analysis at the time the accommodation usage changed, along with the annual comparison of their records to that of the Accommodation Management Information System, was sufficient to enable them to sign the annual Statement of Assigned Accommodation.

We recommended that the requirements of Management Board be clarified, and appropriate changes be made to the OMA.

Review and Inspection of Accommodation

Our review of 20 ministry relocation and consolidation projects, and the inspection of 48 government-owned and leased premises containing 103,000 square metres, indicated that the majority were well arranged with due regard for economy and appropriate for the various programs which they support.

Other Matters

Metro Plan

In 1982 Cabinet approved in principle the recommendations of a report entitled "Policy Options for the Provision of Accommodation". Metro Plan was an accommodation planning initiative by MGS to address accommodation issues. Specifically, the Metro Plan was divided into four major phases. One phase, termed Short Term Action, affected ministries and approximately 150,000 rentable square metres of office space through projects being implemented and scheduled for completion in mid 1984.

In 1983 Management Board approved this phase, consisting of 24 relocations and consolidation projects. The implementation of the plan reduced the number of locations from 48 to 31, and in the process reduced the required office space by 14 per cent.

(a) Financial Benefits of Metro Plan Short Term Action

The reported savings derived from the Metro Plan Short Term Action (STA) were overstated by approximately $30.2 million due to incorrect and incomplete project analysis.

In its 1983-84 annual report, the Ministry reported that the Metro Plan STA estimated savings accruing to its lease program would be $37 million in present value terms.

Our review of the Metro Plan STA revealed that the Ministry had included certain benefits unrelated to the Metro Plan STA. These benefits resulted from the decentralization and relocations of the Ministries of Revenue, Transportation and Communications, Government Services and Health. **Consequently, if these unrelated benefits had been excluded, the savings resulting from the Metro Plan STA accruing to the lease program would only have been $6.8 million.**

(b) Analysis of Alternative Lease Proposals

One of the major projects was the relocation and consolidation of the Ministry of Municipal Affairs and Housing (MAH) to College Park.

The submission to Management Board for the approval of the consolidation of MAH in leased premises at a present value cost of $29.5 million was not supported by a valid and informative analysis of prevailing market rates.

In 1983, MAH informed MGS of its desire to have its operations consolidated in a single location. **Instead of inviting public tenders, MGS requested lease proposals from two candidates.** A financial analysis of the proposals indicated that the present value of the two offers over the term of the lease of 11 years 5 months differed by only $370,000. Based upon this narrow difference in the financial analysis and other non-monetary benefits, MGS in its submission to Management Board recommended that the higher priced accommodation be accepted. Management Board approved the acquisition of the marginally higher priced accommodation.

Our audit of the data supporting the submission revealed that the lower priced proposal was substantially higher (approximately 50 per cent higher) than prevailing market rates in that area. The total net effect over the term, expressed in present value terms, indicated the proposal may have exceeded market rents by approximately $10 to $13 million.

The submission to Management Board did not include a valid financial comparison of the rental value of the properties. Each property was located in a different area, with corresponding different market rates. The analysis did not give recognition to this disparity.

We recommended that the Ministry request at least three proposals and that submissions to Management Board contain appropriate market rental rates for all large accommodation acquisitions.

The Deputy Minister responded to our comments and recommendations on October 24, 1985:

General

"We are pleased to note that your inspection of

accommodation indicated that space was generally efficiently used."

Controlling the Efficient Use of Accommodation

Accountability for Accommodation Decisions

Hamilton Consolidation

"The decision to construct the Ontario Government Building (OGB), later named the Ellen Fairclough Building, in Hamilton derived from the operational benefits that would accrue from consolidation as well as the opportunity to optimize the Province's investment in the construction of the Hamilton Convention Centre. The Hamilton consolidation affected several ministries and many locations. Occupancy of the completed building was staged to coincide with the construction schedule and the availability of finished space within the new facility.

"Of the 10 leases identified by the audit team, 6 were terminated within 4 months of being vacated. Two of these leases were extended (2 and 3 months respectively) when the planned relocation was delayed due to the new space not being finished. In these 2 cases the relocations were scheduled to coincide within weeks of the lease terminations. Three other leases remained vacant for 9, 13 and 21 months respectively. In all cases the Ministry attempted to terminate the leases, sublet or find other Government uses without success. The total cost of carrying these three leases to their expiry dates was approximately $119,000.

"Our review of the 10 leases identified by the audit team indicates a net carrying cost of less than $380,000, substantially less than the $585,000 reported. More than half of this cost can be attributed to space vacated in the County Courthouse (50 Main Street East) and subsequently allocated to the Ministry of the Attorney General. (Part of the area vacated consists of basement storage space.)

"Approximately half of the office space allocated to the Ministry of the Attorney General was occupied almost immediately for use as a hearing room. The remaining portion, approximately 480 usable square metres, remained vacant although allocated. This space could not be returned to the landlord nor could it be used for other government purposes or sublet because of its location within the County

Courthouse Building. In order for this space to be altered to suit the requirements of the Ministry of the Attorney General, project funding had to be supplied by that ministry.

"Until recently, other priorities across the province took precedence over the Hamilton space. However, construction has begun on the necessary alterations and occupancy will take place within the next few months.

"The carrying costs for the vacant space noted in the Audit Report, although overstated according to our records, must be considered within the nature of a major construction project, the conditions of existing legal lease agreements and the space allocation procedures used by the Province. Multi-year construction schedules, phased occupancies and multiple tenancies all contribute to coordination complexities. It is our opinion that the consolidation of government offices in the Hamilton area was carried out efficiently and economically within the constraints of a project of this size."

Floor of Vacant Space (790 Square Metres)

"The Ministry of Government Services has no mandate to deal with space previously allocated to a ministry until that user ministry declares it surplus to its program needs and returns the space to MGS for further allocation."

Monitoring Procedures by MGS and by Client Ministries

"The report states clearly and accurately that MGS 'does not have the specific authority to enforce or monitor compliance' . . . (This) responsibility for monitoring the use of space has specifically been delegated (by Management Board) to client ministries.

"It is recognized that effective program delivery or productivity in the general sense, relies upon three interrelated factors — people, technology and facilities. Typically the facility or accommodation component represents approximately 10% of the total program delivery cost. Inadequate investment in functional physical working environments can result in unrealized productivity gains.

"The responsibility or accountability for ensuring effective program delivery must reside with the client ministries. Once these users have defined their needs for accommodation, it becomes the responsibility of MGS to

see that their requirements are satisfied efficiently, effectively and economically. The manner in which the accommodation is used to support the program delivery activities, its ongoing utilization, remains the responsibility of the ministry to which it was allocated.

"MGS, Management Board and the Government have recognized the need to review the policies, procedures and practices of our real estate activities. Management Board is proceeding with the implementation of the recommendations of the Study of the Management and Accountability in the Government of Ontario. *Part of this work involves a comprehensive review of the Ontario Manual of Administration to clarify its policies and procedures. Also, a* Review of the Province of Ontario's Real Property Related Holdings *has been initiated through the office of the Special Advisor to the Premier. This series of four projects will provide information and recommendations over the next few months.*

"For both of these initiatives, the Ministry of Government Services is providing both human resources and technical advice especially in those areas related to real property and accommodation activities."

Other Matters

MetroPlan

Financial Benefits of MetroPlan Short Term Action

"MetroPlan was the first large scale complex analysis completed by the Ministry. The assumptions while faulty were clearly stated. The benefits even after adjusting for other factors are still positive.

"Procedures and guidelines will be developed, as recommmended, for future projects of this nature."

Analysis of Alternative Lease Proposals

"The consolidation of the Ministry of Municipal Affairs and Housing at College Park has been covered in considerable detail in previous audit reports. Although the auditors verbally explained their assumptions in calculating that 'the lower priced proposal was substantially higher (approximately 50% higher) than prevailing market rates in the subject area', their definition of the prevailing market does not acknowledge the requirements of this project.

"First the client ministry stated a clear requirement to consolidate in one location close to Queen's Park. Even the Bloor Street option would have resulted in the Ministry being separated into two buildings. A total consolidation was preferred in order to reduce duplication and thereby reduce total area (13% achieved).

"The locations used by the audit team to establish the prevailing market rates could not have provided sufficient space to consolidate the client ministry at one location without incurring other extensive relocations and costs.

"The decision made to approve the marginally more expensive option, College Park, was based on functional and operational benefits to the client including: location, layout flexibility, building age and timing.

"Although in most cases, three comparable proposals are preferable to demonstrate equitable competition, the space and locational requirements of the client ministry could be satisfied only in the two options analyzed. Both landlords were given sufficient notice and opportunities to submit competitive proposals and each recognized the importance of the lease rate.

"It should be noted that the consolidation of the Ministry of Municipal Affairs and Housing at College Park as negotiated by MGS Leasing Services staff with the landlord was achieved on time, under budget at no up front capital cost to government. The rental rate proposed by College Park was analyzed by the Leasing Services staff who are active professionals in this highly specialized real estate activity. It was their opinion that the proposed rate was acceptable within the prevailing office space lease market."

3.13 Observations re Inspections of Nursing Homes, Ministry of Health

A major part of a recent audit of the Ministry dealt with activities relating to Nursing Homes and Homes for Special Care. One of our objectives was to assess the adequacy of existing inspection procedures to ensure that Homes comply with the standards of care, safety and financial requirements prescribed in the legislation governing these facilities.

Although inspection procedures were found to be generally satisfactory, we noted the following matters:

- **Unauthorized charges to residents were not adequately followed up to ensure refunds were made.**
- **Many nursing home inspection reports failed to indicate whether previously noted deficiencies had been corrected.**
- **92 of 279 licensed residential homes inspected did not meet the requirements of regulations issued under the Fire Marshals Act.**

DETAILED COMMENTARY

Overview

Expenditures during the 1985 fiscal year for Extended Care Health Insurance Benefits and Homes for Special Care totalled $251 million and $86.2 million, respectively.

Extended Care Services are prescribed by the Health Insurance Act as insured services when provided by a Nursing Home licensed under the Nursing Homes Act. This latter Act which was effective April 1, 1972 regulates the establishment and operating standards of Nursing Homes in Ontario. As at April 30, 1985 there were 331 licensed Nursing Homes operating in Ontario with a capacity of approximately 29,500 beds.

The Homes for Special Care (HSC) program was established in 1964 under the Homes for Special Care Act. The program provides supervised community accommodations both for patients discharged from Provincial Psychiatric Hospitals and for mentally retarded patients discharged from Regional Centres. There are approximately 6,000 residents in the HSC program. However, 4,000 of these residents require nursing care and are accommodated in extended care beds in licensed nursing homes. The remaining 2,000 residents, who do not require nursing care but need a supervised environment, are accommodated in 273 licensed residential homes.

Inspection Procedures

Nursing Homes

A prime objective of the Ministry's Nursing Home Services Branch is to inspect and license nursing homes to ensure they operate in compliance with existing legislation and that the care provided is in accordance with the residents' needs. Qualified inspectors from four disciplines, environmental health, fire safety, nursing and nutritional care, carry out inspections of new homes, inspections both before and after the sale of homes and at the time of annual licence renewal. In addition, follow-up inspections are performed where necessary, and any incidents or complaints concerning the operation of homes are investigated. The Branch's operating costs amounted to $2.2 million in the 1985 fiscal year.

Our audit focused on an examination of the inspection files maintained at head office for each region and a review of reports issued by the internal audit branch on specific nursing homes.

a) Uninsured Services

By regulation residents must be informed of services provided by a nursing home which are not insured services under the Health Insurance Act and the cost for these services. In addition residents are to be charged only for those services which they indicate in writing they wish to receive.

The internal audit branch conducts about 20 audits of individual nursing homes each year. Our examination of internal audit reports issued in 1984 indicated that there were several instances where residents had been charged for uninsured services without their written authorization.

The amounts identified by the internal audit branch were based on a test of a selected sample of residents. It was recommended that the Nursing Home Services Branch require the specific nursing homes to review all charges for uninsured services, to ensure that written authorization had been obtained and that refunds had been made to residents who had not given written authorizations to the home. **We found that after the initial correspondence between the Branch and the nursing homes there was frequently no evidence that the situation had been corrected.**

We also noted that in some instances lack of written authorizations for uninsured services were cited by inspectors in the course of their routine inspection of homes. However, in these cases, homes corrected the deficiencies by obtaining written authorizations from residents or their representatives. There was therefore an inconsistency in the treatment of deficiencies found by the inspectors or by the internal audit branch.

The regulation covering uninsured services only requires that residents be informed of these services and that charges may only be made where the residents indicate in writing that they wish to receive these services. The propriety or fairness of the charge is not covered by the regulation. We noted that one nursing home was charging an administrative fee for the maintenance of residents' trust accounts and for the completion of forms on behalf of residents such as GAINS applications, and adding a surcharge to purchases made on behalf of residents. In addition, a fee of $150 was charged to a resident wishing to leave the home.

We recommended that:

- the Ministry review the policy regarding the regulations with a view to ensuring a consistent application of corrective measures where deficiencies are noted;

- the Ministry reemphasize to nursing homes that they have the responsibility to inform residents of the cost of uninsured services, and that written authorization be required from the residents or their representatives before such charges can be made;
- consideration be given to a requirement that nursing homes demonstrate to the Ministry the reasonableness of charges made for uninsured services, given the assigned responsibilities of nursing home operators for the welfare of their residents.

b) Documentation on Follow-up of Deficiencies

Our examination of inspection files at head office for the three regional inspection offices indicated that documentation was often inadequate to show whether deficiencies noted at the previous inspection had been corrected. We found that in some cases inspectors used the previous deficiency report for follow-up, and reported specifically on the current status. In other cases there was a general comment that all deficiencies reported at the previous inspection had been cleared, or the current inspection report showed no deficiencies and consequently it had to be assumed that previously cited deficiencies had been corrected.

In discussing this matter with the Director of the Branch it was acknowledged that an improvement was necessary in the documentation of inspections to ensure that the current status of previously noted deficiencies was precisely documented.

The Director pointed out that a computerized system was being implemented which would create and maintain a data base of all inspections performed and deficiencies of each nursing home. This system would assist inspectors in their work by providing them with relevant information and previously noted deficiencies in homes, and afford head office staff and regional office supervisors improved control and coordination of the inspection process.

Licensed Residential Homes

The inspection and licensing of residential homes established under the Homes for Special Care Act is the responsibility of the Mental Health Operations Branch. The standards set by the legislation are not as extensive as those under the Nursing Homes Act as residents do not require qualified nursing care. In late 1984, prior to the 1985 licensing renewal year, the Branch contracted with a private firm for the inspection of these homes for compliance with the standards of fire safety and environmental health contained in the legislation.

A total of 279 homes were inspected at a cost of $63,000. Licence renewal was recommended for 237 homes and the remaining 42 required correction of deficiencies and follow-up prior to licence renewal. Before

licence renewal, six of these homes ceased operations. As at the end of July 1985, 266 licences had been renewed with seven held in abeyance pending receipt of a report on the correction of deficiencies.

The private firm reported that 92 of the 279 homes inspected required upgrading to comply with the regulation issued under the Fire Marshals Act. Although the date for compliance with this regulation is within one year from its effective date (April 1983), an additional extension of two years for compliance may be granted by the Chief Fire Official. Despite the fact that it is the responsibility of the owner of the home to comply with the fire regulations, it is in the best interests of the Ministry which places residents in these homes to ensure full compliance.

We therefore recommended that the Ministry ensure that its licensed residential homes are upgraded in accordance with the regulation under the Fire Marshals Act.

The foregoing matters were reviewed in draft form with officials of the Ministry. However, no formal report had been issued as at September 30, 1985. Therefore, we are unable to present the Ministry's views on the matters raised.

3.14 Weaknesses in Administration of Minicomputer Contract, Ontario Government Pharmacy, Ministry of Health

As part of a recent Ministry audit, we assessed whether adequate procedures were used to acquire a minicomputer and related software for the Ontario Government Pharmacy (OGP).

We concluded that, although the procedures used for the selection and approval of the supplier of the minicomputer and related software were generally satisfactory, there were weaknesses in the ongoing administration of the contract.

- **A satisfactory performance bond was not supplied by the vendor as protection to the Ministry.**
- **The vendor was unable to complete the work for the contracted price or within the specified time frames, resulting in extra contract and Ministry staff costs of $415,000 and lost operational savings of $420,000.**

DETAILED COMMENTARY

Background

The OGP is a centralized warehousing and distribution operation of the Supply and Services Branch of the Ministry. It was established in 1968 to provide laboratory, pharmaceutical and related medical supplies to Ontario government ministries and publicly funded agencies and

institutions at substantial reductions in costs. The OGP had a complement of 41 staff and administrative expenditures totalled $1.5 million for the 1985 fiscal year. Purchases and sales of supplies during the same year were $23.1 million and $24.2 million respectively and the average monthly inventory was $6 million consisting of 80 per cent biologicals, vaccines and drugs and 20 per cent non-drugs and supplies.

Acquisition of New Minicomputer

In October 1977 a minicomputer was installed at the OGP to handle order processing, inventory control, invoicing and accounting functions. Our review of this system in the 1979 fiscal year indicated many problems with management and financial controls. The problems were attributed to the limitations of the system.

A consultant's study of the OGP carried out in 1981 reemphasized these problems and established the need and justification for a replacement minicomputer system at an estimated cost of $475,000 (hardware $188,000, software $287,000). The consultant also identified certain financial benefits from the new system such as a reduction of $1.7 million in the average monthly inventory, and $93,000 annual savings in transportation and operating costs.

On April 23, 1982, a Request for Proposal for a minicomputer system was released to vendors by the Ministry of Government Services. Eight proposals were received with prices ranging from approximately $228,000 to $1.2 million. The proposals were assessed by a committee of Ministry of Health staff and a representative from the Ministry of Government Services. Based on the evaluation of proposals, Management Board approved the award of a contract on September 21, 1982 to the lowest bidder at an estimated cost of $228,000 (hardware $156,000 software $72,000). This price was identified by the vendor in his proposal as being based on adapting functionally similar software which had been custom built by the vendor for other clients.

Although the procedures used for the selection and approval of the supplier of the new minicomputer and relevant software were generally satisfactory, there were weaknesses in the ongoing administration of the contract.

Performance Bond

The Ministry received a standard performance bond dated April 14, 1983 from the vendor covering the contracted cost of the project. On June 10, 1983 the Ministry of Government Services, which was assisting the Ministry of Health on the project, returned the bond to the vendor because its conditions were not in accordance with the bond requirements in the contract. **The vendor was unable to obtain a suitable replacement performance bond as the bonding conditions set out in the contract could not be met due to the**

small size of the vendor's operation. As more fully explained in the next section, the bond was cancelled at this time.

Contract Administration

On at least three occasions, (March 1983, October 1983 and January 1984) the vendor approached the Ministry for significant additional funding due to the vendor's perception of the increased complexity of the system.

The vendor's requests for increased funding to January 1984 totalled $61,000 for hardware and software enhancements. The Ministry authorized the increased costs and the vendor reaffirmed his obligation to complete the project for the new budget ($228,000 plus extras $61,000). However, the Ministry had the following concerns about the project.

- The ability of the vendor to complete the project for the agreed price was in doubt.
- Although about $99,000 had been paid to the vendor for the completion of phases defined in the contract, none of the completed application software had been delivered to the Ministry.
- The vendor had expressed concerns regarding the ability of the originally proposed hardware to meet the stated performance requirements.

Further progress payments totalling $26,000 were made to the vendor. On August 14, 1984, the vendor submitted an invoice for $538,000 less the $125,000 previously paid. The vendor indicated in a covering letter that an additional cost of $75,000 would be needed to complete the project. Payment of the invoice was declined by the Ministry. **On August 24, 1984 the vendor ceased all activity on the project and laid off his staff.**

Four days later the project manager at the Ministry of Health called the surety company to verify that the performance bond was still in force. He was advised that when the bond was returned by the Ministry of Government Services the covering letter dated June 10, 1983 was used as authorization to cancel the bond. Apparently this was the first time that the Ministry of Health became aware of the cancellation of the bond.

On September 24, 1984 a Ministry of Health Steering Committee reviewed the eight original bids for the project. It concluded that retendering of the project would cost in excess of $500,000 and the project would take over two years to complete, and that the $125,000 already paid to the vendor would probably be unrecoverable. Consequently, the Committee authorized a negotiated settlement with the vendor in exchange for delivery of all completed software applications to the Ministry.

The hardware was to be purchased from the manufacturer directly, and completion of the project was to be effected by the Ministry's own staff. **After negotiations with the vendor and submissions to Management Board in November 1984 and March 1985, approval was received to revise the contract cost to $453,000 (hardware $173,000 software $280,000).** At March 31, 1985, payments totalling $407,000 (hardware $127,000, software $280,000) had been made.

We estimated that by the revised implementation date in December 1985, the Ministry will have incurred an additional $190,000 for consulting services and Ministry staff time to complete the remaining phases of the project. **The total cost of the project was therefore estimated at $643,000, an increase of $415,000 or 180 per cent over the original contract price of $228,000.**

As a result of the problems experienced, implementation of the minicomputer system was delayed by 18 months. Given the estimated savings of the new system indicated in the 1981 consultant's feasibility study (reduction of $1.7 million in monthly inventory and $93,000 in annual transportation and operating costs), we estimated that the delay had cost the Ministry $420,000 in lost savings.

On October 25, 1985 the Deputy Minister replied to our comments as follows:

Acquisition of New Minicomputer Performance Bond

> *"In retrospect the type of forfeiture bond requested was unrealistic as most vendors would not be able to obtain one. Standards for performance security on future contracts are currently under review by our Legal Branch in consultation with M.G.S."*

Contract Administration

> *"The funding increases requested in March of 1983 were for functional enhancements in accordance with the change control provisions of the contract. The Ministry first became aware that the vendor was having difficulty in completing the contract for the agreed price in a meeting of July 25, 1983, more than three months after the contract was signed (April 11, 1983).*
>
> *"At the time the contract was signed, there was no indication of any problem with the project, and no question of whether to continue with the services of the vendor. No payments were committed or flowed prior to the signing of the contract . . .*

"The original feasibility study estimated a total cost of $475,000, comprised of $188,000 for software development and $287,000 for hardware.

"The successful vendor submitted a total bid of $228,000 comprised of $156,000 for hardware and $72,000 for software. This estimate was considerably less than the feasibility estimate because the vendor proposed to take existing software which was performing similar functions, and adapt it to meet our system requirements. (This approach was also used by other bidders.) However, as work progressed, it became evident that additional uncontracted enhancements were necessary to meet management's needs, at a cost of $61,000.

"The Steering Committee reevaluated the entire project when it became clear that a modified software package could not meet our requirements. At the same time it was decided that different hardware would be more appropriate to meet Ministry future requirements.

"Management Board of Cabinet subsequently approved the purchase of hardware for $173,000 and payments to the original vendor for software work to date of $280,000 for a total of $453,000.

"In order to make the software that was delivered by the original vendor operational for the new hardware the Ministry had to go through a process of conversion testing and completion. The costs are included in the $190,000 estimate of additional costs to be incurred by December 31, 1985. Of this amount approximately $54,000 relates to project management and technical consulting, $56,000 relates to conversion and testing, and $80,000 relates to completion of the unfinished software applications.

"The attached table outlines these costs.

	Hardware	*Software*	*Total*
Feasibility Study	*$188,000*	*$287,000*	*$475,000*
Contract	*$156,000*	*$ 72,000*	*$228,000*
Enhancements	*20,000*	*41,000*	*61,000*
Additional approvals to recognize greater customization requirement	*(3,000)*	*167,000*	*164,000*
	$173,000	*$280,000*	*$453,000*

Completion of Software Development	—	*80,000*	*80,000**
Conversion and Testing	—	*56,000*	*56,000**
Software Costs	173,000	*416,000*	*589,000*
Project Management and Technical consulting	—	*54,000*	*54,000**
	$173,000	*$470,000*	*$643,000*

**TOTAL $190,000*

3.15 Improvements Required in Operations, Forest Management Activity, Ministry of Natural Resources

Net expenditure of the Forest Management Activity of the Resource Products Program for the 1985 fiscal year totalled $143.0 million. An objective of a recent audit of the Activity was to assess the adequacy of the management controls in place to ensure due regard for economy and efficiency.

We concluded that generally, there was due regard for efficiency, and that the staff were dedicated to accomplishing forest management objectives.

We also concluded that controls to ensure due regard for economy were, for the most part, adequate. For example, adequate procedures were in place for the hiring and monitoring of contractors involved in site preparation and tree planting on Crown land. However, we did note several areas where the controls, particularly those relating to agreements with private growers and expenditures incurred under Forest Management Agreements, warranted improvement. Examples of our more significant observations were as follows:

- **Significant weaknesses were observed in the selection of private growers in three of the four northern regions.**
- **There was no incentive for growers to keep costs down because the higher the cost the higher the grower's profit.**
- **Over the last five years actual tending had been significantly below targeted expenditure levels.**
- **Forest Management Agreements (FMA's) do not include a provision allowing the Ministry access to company records of road construction costs.**
- **Infrequent assessments of the quality of FMA silvicultural activities could adversely affect the successful regeneration of the Province's forests.**
- **Deficiencies were noted with respect to the Ministry's forest management information systems.**

We are not including our detailed commentary, since we have been

advised that both our complete report and the Ministry's response will be tabled in the Legislature by the Minister in November.

3.16 Need for Improved Audit and System Controls, Retail Sales Tax Branch, Ministry of Revenue

Retail Sales Tax revenue amounted to $4.4 billion or 18.6 per cent of total provincial revenue for the 1985 fiscal year. This tax revenue is raised under the authority of the Retail Sales Tax Act, which imposes a 7 per cent tax on most retail sales. The Act is administered by the Ministry's Retail Sales Tax Branch.

An audit of this Branch included assessments of the adequacy of controls over the maintenance of the computerized tax roll and procedures established for the collection of unpaid accounts.

In this regard, we concluded that controls were adequate to ensure that the tax roll is accurately and completely maintained. Further, controls over the collection of accounts were relatively effective.

We also assessed:

- The overall ability of the Branch's audit function to:
  - —foster compliance with legislation by those vendors audited, and
  - —encourage voluntary compliance by those vendors not selected for audit; and
- The adequacy of internal controls, including compliance, data integrity and security over the development, maintenance and operations of the Branch's vendor information system, BASYS.

Our conclusions and findings were as follows:

The Audit Function

1) **The audit function has been reasonably successful in fostering legislative compliance by those vendors it audits. However, there were certain areas of concern which we felt should be addressed in order to improve efforts in this regard.**

   - **The skills and classifications of auditors had not kept pace with the additional demands imposed by a more analytical audit approach, more complex EDP systems and more sophisticated tax-wise vendors.**
   - **After being audited, vendors are sometimes allowed to voluntarily remit taxes owing without interest or penalty. Controls were not adequate to ensure that all such amounts**

are collected or to monitor the extent of both the use of such policy and of any penalties and interest foregone.

2) **We felt that audit coverage was inadequate to encourage voluntary compliance by those vendors not selected for audit. Our concerns were as follows:**

- **In recent years, resources and efforts devoted to auditing vendors have substantially decreased, despite the fact that audit is a primary means of narrowing the 'tax gap'.**
- **Although large vendors are covered more frequently, less than two per cent of the vendor population is covered each year.**
- **Because of resource constraints and the difficulty of measuring the effect of audit on voluntary compliance, audit activities have continued to concentrate on those vendors likely to yield larger assessments at the expense of broader coverage.**

BASYS Information System

- **Internal controls and compliance with established policies and procedures were adequate, with the exception of the implementation of changes to the system.**
- **Important data errors previously reported in internal audit reports had not been corrected.**
- **Security controls over the systems and data were reasonable with the exception of physical security over the communication equipment.**

DETAILED COMMENTARY

Overview

The Retail Sales Tax Branch, consisting of approximately 470 people, is organized to carry out the following functions:

—collection of tax revenue from vendors (Revenue Control/ Services);

—enforcement of compliance with legislation (Audit);

—provision of advice and interpretation of the Act (Services and Legislation);

—research pertaining to legislative matters (Legislation).

For the 1985 fiscal year, total Branch expenditures were $21.1 million, of which $14.1 million related to salaries and employee benefits.

The entire operation is supported by a large and highly sophisticated computer system called BASYS (Computer Based Information System). The system maintains the tax roll of over 200,000 vendors, records payments, triggers collection activities for delinquent accounts, and is used to assist in the selection of vendors for audits.

The basic philosophy of the Ministry has been to encourage and maximize voluntary compliance by taxpayers through 'soft services' as opposed to 'hard' enforcements. Some of the measures are:

—improved information on tax changes (publication of bulletins, holding seminars, etc.);

—visits by service officers (non audit);

—improved monitoring of voluntary payments.

These services are primarily directed at the small businesses, which represent approximately 120,000 or 60 per cent of all vendors and contribute approximately $500 million in revenues. To reinforce this philosophy, the Ministry has established a Special Vendor Assistance Program (SVAP) in addition to its regular service function. The SVAP representatives visit, instruct and 'correct mistakes' of approximately 75,000 vendors who were affected by the 1982 budget extension of Retail Sales Tax.

THE AUDIT FUNCTION

Description of the Function

The audit function's role is to ensure that taxpayers comply with all relevant aspects of the Retail Sales Tax Act and report the correct amounts on their returns. Audits have a twofold impact on the vendor population. The immediate impact is upon the vendor subjected to the audit, and may result in direct revenues to the Province. Secondly, and probably of more significance, is the awareness of other vendors that audits are being done. This awareness usually encourages voluntary compliance. The Branch refers to revenues based on such voluntary compliance as 'indirect revenues'.

The audit function is divided into the Industrial Services Unit (ISU) and General Audit. ISU's mandate is to service the 1,500 largest vendors. The operations of these vendors are large and complex, and the audits tend to occupy a number of auditors over a prolonged period of time. General Audit handles the remainder of the vendors, whose operations are far smaller and tend to be less complex than those reviewed by ISU auditors.

Consequently, the majority of these audits only require the engagement of one auditor for a few days.

The auditor's responsibility is no longer confined to identifying errors and problems, but also includes explaining their origin. For example, an audit uncovering an error which is based on a misunderstanding of Retail Sales Tax (RST) legislation can be compared to audits of similar vendors in order to determine the nature and extent of the problem. This then provides an ongoing mechanism whereby the RST legislation can be continually improved and made more readily comprehensible to the vendors. The approach thus ensures not only that audits yield direct revenue but also facilitate voluntary compliance, thus indirectly increasing revenue for the Province. For the 1985 fiscal year, the Branch expected to raise $29.6 million by way of direct revenue and $52.4 million by way of indirect revenue.

To help select vendors for audit, the Branch has developed a computerized information system which divides the entire vendor population into 230 profile codes. The codes segregate the vendor population by type of business, average remittances and delinquency rates. The codes also indicate whether, based on prior direct or industry experience, a vendor poses a greater risk of tax evasion or of misinterpretation of legislation.

The audit selection process also considers direct referrals made by other groups within the Ministry/Branch, such as Revenue Control and Services field officers.

Audit Abilities vs. Increased Demands

Based on our discussion with the Branch management and our observations and review of various study documents, there was a gap between the expected level and the actual performance of field auditors.

Our enquiry and interviews with senior personnel in the audit function revealed that many auditors were failing to perform up to the desired level and the current salary scales and travel requirements were not attracting or maintaining better educated/trained auditors. A position paper prepared by the Branch in December 1983 indicated that:

(i) The Branch had no State-of-the-Art Electronic Data Processing expertise within the audit function. For large ISU vendor audits, this expertise is essential.

(ii) Many incumbents in the audit positions had very little enthusiasm for additional training and were ill equipped for additional responsibility.

The position paper also stated that this state of affairs had a

negative impact on the image of the Branch and threatened the overall objective of increased voluntary compliance. The only possible solution advocated by the position paper was to upgrade the classification of audit staff and recruit more qualified/trained auditors who would have a positive impact on the entire environment and thus improve the morale and overall effectiveness of the function.

A comparison of the remuneration paid to various auditing groups indicated that the salaries offered by the Branch were significantly lower than, for example, the remunerations of senior Federal Sales Tax Auditors.

Better Control and Monitoring of Self-Assessment Practices Required

Financial controls were not adequate to ensure that all self-assessed amounts are received by the Province. Further, monitoring of the use of the self-assessment policy could be improved.

Subsequent to an audit, if a vendor is found to be owing tax moneys, the vendor may, depending on the circumstances, be asked to remit the amount with the next payment instead of a tax assessment being raised. This is termed "self assessment". The Branch has endorsed this practice in order to develop better long-term relationships with vendors. It also allows the Branch to forego penalties and interest where, in the opinion of the auditor/supervisor, the vendor has made a genuine effort to comply.

The drawback with this practice is that, although a record is maintained in the BASYS system, the amount owed does not become a part of the "Accounts Receivable". **Therefore, if the amount remains unpaid, no organized follow-up process is triggered. In addition, when the payments are received they cannot be matched with outstanding assessments in the computer system.**

The onus remains on the individual auditors to follow up. Although our testing indicated that the larger self assessments were followed up by the individual auditors, the remission of smaller assessments was left to the discretion of the vendors.

Our examination of a sample of 80 vendor audit files revealed 10 instances where the vendors were self assessed; 6 were over $1,000 each, including two in the amounts of $11,000 and $136,000. In both of these larger cases, we understood that formal assessments were not raised because under subsection 17(3) of the Retail Sales Tax Act they would also have to be assessed for an equivalent amount of penalty for non-collection of tax, which was not considered warranted in the circumstances. We were advised by Management that the action taken in these two instances was

consistent with the Branch policy. These amounts were subsequently followed up by the auditors for payment.

From the sample of files reviewed, it was apparent that the amounts involved and circumstances under which this policy was applied varied greatly. We were informed by Management that, because each situation must be dealt with individually, stringent guidelines on the use of the policy were not desirable. In our opinion, effective monitoring controls should be in place to prevent any inconsistencies or misuse. We recommended that the Branch:

—institute procedures to facilitate monitoring of actual payments and matching them to the self-assessed dollars;

—periodically review documented rationale for the use of self-assessment as part of the audit quality control process; and

—maintain an ongoing record of self-assessed dollars as a basis for periodic review of the impact of Branch policy to forego legislated penalties.

Tax Gap

Recent studies by the federal government have indicated that Canadian tax authorities are facing a large and increasing 'tax gap' (the shortfall between the tax revenues that the jurisdiction actually receives and the tax revenues that it is legally entitled to receive). It is extremely difficult to estimate the tax revenues foregone from unreported transactions. However, federal estimates from all tax sources have placed the federal tax gap at $9 billion, based on an 'underground economy' in Canada estimated to be $40 billion. Using the results of this and other studies, and based on the relative size of the economy and tax revenues from various sources, it is not unreasonable to expect that the tax gap in Ontario with respect to retail sales tax could be anywhere from $300 million to $1 billion. **Although audit is a primary means of narrowing this gap, resources and efforts devoted to auditing vendors in Ontario have decreased substantially in recent years.**

Inadequate Audit Coverage

During the 1985 fiscal year, the Branch planned to carry out approximately 4,500 audits, representing roughly 2 per cent of the registered vendors. **We were concerned that this level of coverage may not be sufficient to meet Management's program objectives.**

Statistics maintained by the Branch indicated that the coverage in Ontario is probably the lowest among all provinces in Canada. Although a straight comparison of figures may not always be meaningful, as there could be significant variations in interpreting what constitutes an audit, the differences in the raw figures were striking. For example, the Province of

Quebec covered 6 per cent of the vendors during 1983-84, whereas Ontario covered only 1.6 per cent of vendors during the same period.

An external study conducted in the 1960's suggested that approximately 15 per cent of the vendors should be audited annually. This figure was based primarily on pure economic considerations. That is, the study determined that up to the 15 per cent level, there is still more revenue generated from audit activities than the cost of conducting them. Auditing beyond the 15 per cent level would result in diminishing returns to the jurisdiction.

One of the major implications of low coverage is that the audits tend to concentrate on high yielding vendors (where there are likely to be large assessments) in order to maximize direct audit revenue. However, the emphasis on high yielding vendors localizes the audit impact and hence fails to encourage wider voluntary compliance in accordance with Management's stated objectives.

A study carried out in 1981 by the Revenue Operations Research Branch of the Ministry recommended increased audit coverage to foster compliance. **Subsequently, the Ministry made a submission to Management Board of Cabinet requesting increased resources for audit. This submission was unsuccessful.**

Over a number of years, due to general budget constraints, the Ministry has redirected staff from audit to other functions. Between 1973-74 and 1983-84 the number of auditors has decreased by over 56 per cent while the number of registered vendors has increased 52 per cent. The table below illustrates the trend.

	1973-74	1983-84
No. of Audit Staff	242	161
No. of Audits	16,040	3,085
Revenue Assessed	$19.2 million	$21.3 million
Vendor Population	130,000	197,000

Although the impact of inflation and legislative changes should be considered in this comparison, it is interesting to note that, despite a drastic cutback in the number of audits conducted, the level of direct revenue assessed had been maintained. This indicated that audits had concentrated on high yielding vendors. In 1984-85 it was expected that direct revenue assessed would be $29.6 million with no major change in the number of audit staff. Thus the trend towards reliance on high yielding vendors has continued.

Measurable Revenues vs. Achievement of Branch Objectives

Branch management had set a target for indirect revenue increases of $52.4 million for the 1985 fiscal year. **However, audit management had**

focused attention on increasing direct revenues, not only because of resource constraints, but because direct revenues were more measurable.

As stated earlier, indirect revenue results from an increase in the rate of voluntary compliance. Efforts to increase indirect revenue may involve various factors such as:

—better education of vendors/taxpayers through holding seminars, mailing bulletins and visits by Service and Special Vendor Assistance Program Officers;

—more scientific approaches to audit selection;

—increased audit coverage; and

—more rigorous collection procedures, including early prosecution and seizure of assets.

Clearly, it is the collective effort of all sections of the Branch that affects voluntary compliance. Therefore, any action or inaction by any one section tends to have an impact on the compliance rate.

It is extremely difficult to quantify the impact of efforts to increase indirect revenue. There are a number of variables such as changes in economic conditions, commodity mix, legislation and vendor attitudes which are partially or totally beyond the control of the Branch. The quantification process becomes even more subjective when an attempt is made to isolate the impact of any one of the Branch functions on the overall target.

Given these complexities, it is not surprising that we were unable to obtain any supporting analysis to rationalize Management's 1985 indirect revenue target of $52.4 million.

Consequently, management of the audit function regarded the measure to be beyond their control, and thus outside the scope of their accountability. It was only the direct revenue component of the total budgeted revenue increases for which they felt responsible. This, together with the increased target for direct revenue, contributed to Management's maximization of short-term gains (direct revenue) at the expense of the long-term (indirect revenue) objective.

BASYS INFORMATION SYSTEM

Description of the System

This computer-based information system (BASYS) is used for recording, storing and computing information concerning the administration of the Retail Sales Tax Act. It provides both on-line and batch processing capabilities in support of Retail Sales Tax Branch (RSTB) operations through 14 district and service offices located throughout Ontario.

BASYS was developed by the Ministry and implemented as an operational system in the summer of 1982 at a cost of approximately $2.5 million. While the main computer processing for the system is accomplished at the Queen's Park Computing Centre, the RSTB is responsible for its operation and ongoing maintenance.

Inadequate System Change Control

Consistent approval and monitoring of all changes that are made to a system and its computer programs is absolutely essential to maintain strong internal control. Should such control not be provided, the risk of erroneous or unauthorized changes being made to the system cannot be assessed.

Management Systems Branch (MSB) provides a formal system change control procedure employing a Work Request Form that facilitates authorizations and approval of systems work and changes to the user branch application systems. Also, the RSTB had established a procedure for the use of the MSB Work Request Form in order to monitor any systems work performed.

However, these procedures were not complied with and the monitoring of changes to the BASYS programs was not controlled on a consistent basis.

We conducted a detailed review of 21 out of 86 known program/module changes made during 1984. Of these, 10 were not supported by a proper Work Request Form nor had they been approved by RSTB management.

We recommended that the RSTB review the monitoring process of the changes made to the system and ensure that all changes be properly authorized, approved and tested before implementation.

Errors in Important Data

The internal audit group of the Ministry identified various data errors which occurred during the past two years in the BASYS database. **We found no evidence of corrective actions having been taken since the internal audit reports on the data integrity had been issued.** A work order to improve the data integrity had been prepared, but was assigned a low priority by RSTB and was still outstanding.

In our opinion, the data errors should have been assessed in terms of the effect they could have on the operational and management needs of the RSTB. For example, if an active vendor is erroneously assigned an inactive code, this vendor will be excluded from the population for audit selection and filing returns. Our follow-up of the internal audit findings revealed that three active vendors in a limited sample had been assigned inactive codes.

We recommended that RSTB take immediate action to assess and

correct errors of important information within the data base that could affect the operation and management of RSTB.

Inadequate Physical Security

Physical security over the three communication control units located in the Oshawa office was inadequate.

The communication control units, which are similar to a telephone switchboard, enable 96 computer terminals located in the Oshawa office to access the Queen's Park Computer Centre. **These communication control units were in an open area adjacent to a photocopy machine. The panel doors on these units could not be locked, thus providing easy access to the switches inside them.** It would be possible for an unauthorized individual to manipulate the switches to:

—allow a non-authorized terminal to be connected to the BASYS database;

—disconnect any terminal; or

—switch terminals from one application system to another.

We recommended that RSTB management take action to secure the communication control units.

The following reply was received from the Deputy Minister on August 12, 1985:

The Audit Function

Audit Abilities vs. Increased Demands

> *"The Branch is well aware of the fact that more complex EDP systems and more tax-wise vendors have left us somewhat vulnerable. As a result, the Branch has been giving priority to audit candidates possessing EDP skills when we are conducting competitions. The Branch is also examining the courses of action available to upgrade current employees and a report on this will be ready within the next few months.*
>
> *"This classification issue has been discussed with the Assistant Deputy Minister and the Director of Personnel Services Branch. It is our understanding that the Audit Services Branch will be performing an audit on the audit positions within the Tax Revenue and Grants Program as a result of this issue."*

Control and Monitoring of Self-Assessment Practices

> *"Audit operating policy dictates that audit files remain*

uncompleted until the deficiencies found during audit have been corrected by the vendor and all self-assessed amounts, usually of nominal amounts, have been scrutinized and accounted for and the vendor's account monitored.

"We believe that this form of control as utilized provides sufficient control for self-assessed taxes of nominal amounts and enhances the audit function as being sensitive to the Ministry's objective of improved client/vendor service to complying vendors."

Tax Gap

"Resources and efforts devoted to audit decreased substantially during the latter part of seventies due to constraints within the Government as a whole.

"As a result of representations to Management Board and internal reorganizations within the Branch, we have been able to increase our audit complement positions by 61 over the past few years."

Inadequate Audit Coverage

"Using the current audit staff . . . allows the Branch to audit most of the vendors remitting the largest amounts of tax within a 48 to 60 month cycle.

"More audits were completed in the 1984/85 fiscal year than in the preceding five year period and direct audit revenue exceeded the previous year by 32 percent.

"It should be noted that an increase in audit coverage of 1% of the taxroll would require an additional 30 auditors at an annual direct cost of $1.7 million. To increase the audit coverage to 15% of the taxroll (as recommended) would require at least an increase in audit staff of 360 at a direct cost of $20.4 million annually.

"In addition to the 5,000 vendors who were audited this past year, an additional 14,000 were visited by the Special Vendor Assistance Program (SVAP) staff plus 10,000 refunds were processed through the audit function resulting in a total of 29,000 contacts with vendors and taxpayers."

Measurable Revenues vs. Achievement of Branch Objectives

"The audit group meets regularly with the Legislation and Service areas of the Branch to discuss areas of non-compliance. As a result of these discussions, 2 Information Bulletins were issued in 1983-84 and 3 in

1984-85 to clarify areas of misunderstanding as were 24 Sales Tax Guides in 1983-84 and 17 in 1984-85 in addition to our SVAP visits.

"Vendors have been placed in profile groups from the taxroll by audit and through the audit and SVAP Programs has contacted, discussed, provided information and support documents and pamphlets to a total 19,000 vendors.

"It is also correct to say that direct audit revenue at $31.28 million was the most that the Branch has assessed to date as is the $4.4 billion total revenue received.

"Of the 19,000 vendors whose business operations were reviewed by direct contact through Branch staff, 5,000 received detailed audits and 2,400 only were issued with tax assessments for tax deficiencies. Therefore, the number of vendors being assessed on audit is 48.0 percent of those audited. Only 12.6 percent of total vendor contacts were non-complying vendors.

"Taking into consideration the percentages of complying to non-complying vendors developed, it appears that direct audit revenue while increasing significantly has not, in fact, been overemphasized.

"The Branch feels these measures are adequate in encouraging voluntary compliance when coupled with the periodic audits which ar. carried out."

BASYS Information System

Inadequate System Change Control

"Although the Branch is satisfied that all required changes have been implemented, we now require all changes to BASYS, including emergency operating changes made by Management Systems Branch, to be authorized in writing. All changes are now documented in a monthly report prepared by Management Systems Branch."

Errors in Important Data

"All Audit Services Branch reports are reviewed and acknowledged by the Senior Manager, Services and Revenue Control, who is responsible for quality control within the BASYS database, and recommendations made in these reports are forwarded to the Branch's System Review Committee where they are prioritized and assigned to system maintenance staff. Items not actioned by the System

Review Committee are discussed with the Audit Services Branch and resolved within the finalization framework developed for the Tax Revenue and Grants Program."

Inadequate Physical Security

"We do not consider that the concerns expressed are entirely valid considering we are located in a secure building with limited and controlled access and employ a full time Chief of Security."

3.17 Further Economies Warranted re Ontario Provincial Police Operations, Ministry of the Solicitor General

Expenditure for the Field Operations and Supply Divisions of the Ontario Provincial Police (OPP) Program totalled $183.1 million and $33.8 million respectively for the 1985 fiscal year. We assessed:

- the adequacy of management controls, including procedures to ensure due regard for efficiency and effectiveness (Field Operations Division); and
- the adequacy of management controls to ensure due regard for economy (Supply Division).

Field Operations Division

We concluded that the Division had generally endeavoured to employ resources in the most efficient and effective manner. For example, public complaints received by the OPP were being processed on an appropriate and timely basis. Some inadequacies, however, were noted.

- **Certain clerical duties performed by OPP members could be assigned to lower paid civilian staff.**
- **Approximately one-half of all vacation time is taken by the OPP in the summer, when criminal activity is at its highest.**
- **1981 recommendations by the OPP to amalgamate detachments had only been partially acted upon.**

Supply Division

We found management controls to be generally adequate to ensure due regard for economy. However, we felt that controls could be strengthened in several areas to achieve additional economies. For example, we noted that:

- **A number of vehicles took longer than six months to be placed into service from the date of delivery.**
- **A number of costly repairs were made on high mileage vehicles, in some cases just days before being taken out of service.**

- **A majority of inventory items were overstocked, with many having more than a five year supply.**

Related Matters

- **We noted an overall lack of EDP systems development in the Ministry during the course of our review of the OPP Field Operations Division.**
- **Procedures for the control and security of weapons and ammunition were poor.**
- **Some costs for an insignia shop operated under the direction of the Commissioned Officers Association were absorbed by the Ministry.**

DETAILED COMMENTARY

FIELD OPERATIONS DIVISION

Background

The objective of the OPP Force is to provide continuous and effective protective service to the public. The Force performs all duties related to the preservation of peace, prevention of crime and the apprehension of criminals, offenders and others who may be lawfully taken into custody.

The Field Operations Division is responsible for policing all areas in Ontario without a municipal police force, supplementing and assisting municipal enforcement as required and patrolling Ontario's highways. Operations are undertaken by 16 districts and over 180 detachments employing approximately 4,400 employees (approximately 3,800 uniformed officers and 600 civilians).

Public Complaints

In 1984 the Professional Standards Branch of the OPP processed over 500 complaints by the public against members of the Force. In addition, there were a number of complaints against policing services in general, as well as internal complaints raised by OPP members against other members.

The Professional Standards Branch found 125 complaints were legitimate and well supported. They included such matters as:

—use of unnecessary force by OPP members;

—use of improper procedures in carrying out duties;

—inadequate or lack of patrol service.

The main complaint by the public related to the conduct of officers.

Approximately 40 such complaints were received in 1984, and they primarily included situations where officers had been abusive to people they had stopped or investigated.

We reviewed the system used to follow up and process complaints. We concluded that generally the system was adequate and was carried out in a timely manner.

Savings from Use of Civilian Staff

A review of activity reports for a one year period ended September 1984 revealed that hours spent on support and administrative services in the field were significant, varying from 31 to 40 per cent among districts. Although some administrative duties may require uniformed personnel, it may not be as essential for uniformed members to perform other clerical work. One OPP official expressed the view that the hiring of civilian employees would not only save money, but also free up Force members to fulfil their regular police duties. The Program Audit and Evaluation Branch of the OPP had also recommended using civilians wherever feasible.

For example, there were approximately 86 full-time court officers who were OPP members. Their duties included setting court dates, maintaining trial books, ensuring crown briefs were proper, and finalizing reports after court. A court officer is usually a first class constable whose annual salary is approximately $33,000. Using civilians as court officers was recommended by the Program Audit and Evaluation Branch.

A systematic review of clerical duties performed by uniformed employees would prove useful in identifying the potential savings that could be achieved by using civilian staff.

Vacation Leave

Over the last five years, approximately 47 per cent of vacation time has been taken by staff from July to September. **Consequently the OPP staff level during this period has been the lowest of the year. In these months, reported criminal occurrences are the highest of the year, while clearance rates (cases solved) decrease for criminal code offences.**

Work load peaks during the summer with staff having to be shifted (relocated) to meet the needs of popular vacation areas. Clearance rates pertaining to specific types of offences such as motor vehicle thefts are noticeably down during the summer.

We acknowledged that OPP procedures allow members with children attending school to take at least one week of vacation during July and August. However, since vacation time taken during the summer months impairs the efficiency of field operations, we recommended that consideration be given to better scheduling of vacation throughout the year through cooperative efforts of all staff members.

Amalgamation of Detachments

In 1981, the OPP committee responsible for recommendations on patrol car complement conducted a survey of detachment locations to determine if any could be closed down. This resulted in the closure of several detachments.

The committee also recommended that in order to improve efficiency and effective police service delivery, consideration be given to closing and amalgamating an additional four detachments. It was estimated that there could be considerable savings in constable complement. **We were advised that one detachment had recently been closed on a temporary basis. However, the other three detachments were still in operation.**

SUPPLY DIVISION

Background

The Division is primarily made up of two branches, Transport and Quartermaster Stores. The Transport Branch provides and maintains the mobile equipment to meet OPP transportation needs. The Branch operates the general headquarters and Lakeshore garages plus the Thunder Bay garage. It is responsible for over 2,600 items of equipment including approximately 1,400 district automobiles, 200 utility vehicles, 180 trailers, 75 motorcycles, 110 watercraft and 160 snowmobiles as well as various types of trucks.

The Quartermaster Stores Branch is responsible for stocking and distributing uniform and equipment items as well as forms used by the OPP. The Branch may fill up to 20,000 requisitions a year for these items.

Transport Branch

(a) Excess Vehicle Levels

The Transport Branch uses a fleet management system to monitor individual vehicle usage and to project a replacement date for each vehicle based on a criterion of 140,000 kilometers.

The Branch orders replacement vehicles from the Ministry of Transportation and Communications in accordance with policy specified in the Ontario Manual of Administration. While the Branch had a systematic method of ordering and replacing vehicles, we felt that there was some room for improvement. **Under the method used, we noted that over 150 vehicles valued at approximately $1.3 million took longer than six months to be placed into service from the date received by the Transport Branch. Of these, 32 took longer than 10 months.**

While we recognize that vehicles have to be ordered in advance to meet replacement needs that occur, we felt the Branch needed to direct more effort at reducing the length of time costly vehicles sit in storage.

In response to our comment, the Branch acknowledged that steps would be taken, where feasible, to improve controls and endeavour to minimize the storage time of vehicles, from the time they are received to the time they are placed in service.

(b) Vehicle Repairs

The Ontario Manual of Administration sets out the general replacement criterion for motor vehicles at 5 years or 130,000 kilometers, whichever comes first. This criterion was increased in September 1984 from 110,000 kilometers. The Transport Branch's own replacement criterion of 140,000 kilometers has been in existence for about 4 years. **Our review of vehicle repairs revealed a number of instances where costly repairs were made on vehicles nearing replacement.** Examples included:

—replacing a converter and transmission ($1,369) at over 138,000 kilometers, 5 days before taking the car out of service;

—repairing a transmission ($884) at over 139,000 kilometers, approximately 3,500 kilometers before taking the car out of service;

—repairing alternator and other items ($881) at over 144,000 kilometers, approximately 3,000 kilometers before taking the car out of service;

—replacing a windshield ($202) at over 139,000 kilometers, 3 days before taking the car out of service;

—repairs amounting to $1,217 at almost 132,000 kilometers.

We recommended that OPP management review its replacement criteria. Such a review should determine whether the benefits realized by utilizing vehicles over 130,000 kilometers outweigh the additional cost of repairs after that limit.

Quartermaster Stores Branch

A review of supplies issued for the year ended October 31, 1984 and inventory quantities on hand in November 1984 revealed that many items were greatly overstocked.

Of 105 types of stock, 63 had more than two years supply on hand, with 32 having more than a five year supply. Examples of the latter include:

Item	Years Stock on Hand	Approximate Value $
Officer Wellington Boots	13	45,000
Breeches, Heavy Winter	61	30,000
Parkas, Arctic	7	50,000
Breeches, Winter	23	35,000
Trousers	6	110,000

Overpurchasing of supplies ties up funds and storage space. We recommended supplies be ordered on the basis of need.

RELATED MATTERS

Lack of Overall Computer Development — Ministry and OPP

A 1984 consulting report covering a review of the Ministry's overall information-technology development and standards concluded that the Ministry was not applying a sufficient level of fiscal resources to EDP systems investment, especially systems development. Furthermore, the Ministry was under-resourced in terms of the number of systems professionals available to provide leadership, guidance and control in the application of more appropriate levels of information-technology investment.

Our review of the OPP Field Operations Division revealed that, since 1981, overall costs for OPP computer services have amounted to $9 million. **Even after incurring such significant expenditures, no overall computerized management information system had been developed.** We felt that this lack of a cohesive system significantly affected the operations of the OPP. For instance:

—The daily activity reporting system was not sufficiently detailed for good planning and monitoring. For example, it did not separate calls for service from occurrences resulting from routine patrol.

In addition, our field survey questionnaire revealed that information summarized at Headquarters was arriving back in the field too late to be of timely use to district detachments and commanders.

—Time consuming manual compilations of data took place. For instance, staff relocations required lengthy periods to compile and prepare.

—The system did not provide management with appropriate information for monitoring overtime trends.

—Data that could be useful for crime analysis was not systematically collected. Crime analysis, which involves

identifying specific demographic information for types of crimes, is used in crime prevention.

We were advised that recently an Information Technology Services Branch had been set up at the Ministry with a Director hired in December 1984. This Director was to be responsible for all EDP development at the Ministry.

Control and Security over Weapons and Ammunition

Both weapons used by the OPP and those confiscated are physically stored in the weapons area, and are controlled by a custodian who also maintains the inventory records. Weapons vary from hand guns to sawed-off shotguns and knives. **Existing controls were weak in that weapons could be removed from storage by the custodian and concealed by adjusting the inventory records.** In addition, disposal of confiscated weapons is facilitated by the fact that only the word "destroyed" and date need be entered in the record of confiscated weapons.

The weapons area also contains a large stock of valuable weapons including machine guns and large quantities of ammunition. **Our review of physical security features revealed several weaknesses:**

—Some windows in the building containing these weapons were broken and/or left open on a continuous basis. Additionally, the back door to the building was observed to be open and unguarded.

—There was no alarm system in place or armed personnel guarding the weapons and ammunition.

—During the day doors to the weapons area were left open.

—A number of people had unrestricted access to the weapons area. As a result, weapons could be outside the area without the knowledge of the custodian. Also, we observed repair shop personnel removing weapons without signing them out.

Insignia Shop

An Insignia Shop operates out of Ministry premises, selling items inscribed with the OPP symbol. Items sold include caps, shirts, jackets, tie pins, etc. The shop operates under the direction of the Commissioned Officers Association, a private organization incorporated in 1975 to represent all commissioned officers within the OPP. The Association acts as a liaison with the Office of the Commissioner as well as promoting social functions for its members.

Although the Association is essentially a private, self-funding group, **the shop does not pay the Ministry for the use of one full-time OPP officer**

nor any rent for the premises. The officer's annual salary is approximately $30,000.

The shop's operations are audited by an independent firm of chartered accountants. Due to the private nature of the shop's activities, we did not have access to its audited financial statements. We were therefore unable to determine the significance of the shop's financial activities. We understood that revenue generated by the business is used for scholarships and bursaries for members of the OPP and their families.

The following response was received from the Deputy Solicitor General on September 27, 1985:

Field Operations Division

Savings from Use of Civilian Staff

> *"We agree that radio and CPIC duties should be filled by civilian staff as well as all clerical duties in order to better utilize uniform personnel. A preliminary review of two major areas has resulted in increased use of civilian employees in those areas. A systematic review of clerical duties performed by uniform employees in other areas of the Force is presently being conducted. This review will be completed by the end of October 1985 and an implementation strategy will be developed to reduce the clerical duties performed by uniform employees where possible."*

Vacation Leave

> *"The Force Policy which dictates that no more than 1/6 of the members of the detachment may be absent on vacation leave on any one time has been in force for many years and has worked well. However, changes in the OPPA Memorandum of Understanding and other related scheduling requirements have had the combined impact of further reducing the staff level during the summer months. This policy will be re-examined in view of the current situation to identify better ways of scheduling vacation leave."*

Amalgamation of Detachments

> *"As noted in the Audit Report, the Force has amalgamated a number of detachments. The decision has been made to amalgamate (the detachment closed on a temporary basis with another) detachment on a permanent basis. Efforts will be continued to amalgamate the remaining three*

detachments while maintaining the quality of service to the public."

Supply Division

Transport Branch

(a) Excess Vehicle Levels

"Due to manufacturer's 'shut-down' and the established MTC purchasing schedule, the majority of the vehicles ordered are delivered during the months of May and June. At this time, our vehicle stock would be in the neighbourhood of 400 to 500 vehicles and it stands to reason that a quantity of these vehicles would not be assigned until the first part of the following year. Every effort is being made to place the cars in service as quickly as possible."

(b) Vehicle Repairs

"All vehicle repairs costing in excess of $350 require pre-authorization from Transport Branch. When the vehicle's accumulated kilometers are high and expensive repairs are required, an assessment is made as to the cost effectiveness of doing repairs or replacing the vehicle early and picking up the old vehicle by department tow truck.

"The OPP has reviewed its replacement criteria and believes that the current practice of replacing vehicles at 140,000 kilometers is the most efficient procedure."

Quartermaster Stores Branch — Excess Inventory Levels

"Quartermaster Stores must retain sufficient stock to meet Ontario Provincial Police needs at any given time. It is not economical to stock small quantities of supplies as volume buying can save many dollars. Every effort is being made to ensure that only those items that turn around quickly are bought in large volume."

Related Matters

Lack of Overall Computer Development — Ministry and OPP

"We agree that there has been overall lack of EDP systems development in the Ministry as a whole and steps have been taken to improve this situation. . . . In February of 1983 a Computer Services Branch was established in the O.P.P. to consolidate and increase efficiencies in EDP systems within

the Force. In 1984, the Information Technology Services Branch was created in the Ministry Administration Division to coordinate the development and implementation of EDP systems on a corporate Ministry-wide basis. Organizational responsibilities have been refined such that the Information Technology Services Branch is now responsible for all systems development within the ministry, and the Computer Services Branch is responsible for systems operations and the coordination of business requirements for the O.P.P.

"The Director of the Information Technology Services Branch has been appointed and staffing of key positions in the Branch will be completed by the end of 1985. Management Board allocated funding for eight new positions for this Branch and an additional twelve positions were funded through the internal reallocation of resources. Efforts by the O.P.P. to meet the Management Board request for a strategic plan were delayed to allow development of an overall ministry plan. This overall information technology plan for the Ministry is being developed and, following approval of the plan by mid-1986, we expect to see significant advances in the development of EDP systems in all areas of the Ministry. A particular emphasis of the new Branch is the structured methodical approach to systems development which gives rise to improved project management and planning."

Control and Security over Weapons and Ammunition

"Procedures over the control and security of weapons and ammunition have been reviewed following the audit. Although to date no problems or discrepancies have occurred in relation to the control or custody of weapons, steps have been taken to increase both the control and security in this area."

Insignia Shop

"A legal contract defining the role and responsibilities of the operation of the insignia shop operated under the direction of the Commissioned Officers Association has been prepared and is being reviewed by the parties concerned. Following agreement of the terms and conditions set out in the agreement, it will be signed and become the governing document for this operation. The agreement will require that the Association hire its own staff and pay rent for the space occupied. . . ."

3.18 Additional Cost Savings Possible re Highway Maintenance Operations, Ministry of Transportation and Communications

An audit at the Ministry encompassed the Maintenance Activity of the Provincial Highways Program. Expenditures of this Activity during the 1985 fiscal year amounted to $215.5 million. Our objective was to assess the adequacy of management controls in place to ensure due regard for economy and efficiency, and to determine whether adequate procedures were in place to measure the effectiveness with which program objectives were being met.

We concluded that management controls and procedures were adequate in most areas. The Ministry had undertaken a number of cost effective initiatives. For instance:

- **Initiatives undertaken by the Ministry in such areas as privatization, one person plows, staff scheduling and patrol yard amalgamations had proven cost effective while providing an acceptable level of service to the public.**

However, we also noted a number of areas where additional initiatives should be undertaken and controls strengthened. For example:

- **Four out of six districts examined did not monitor the application rate for salt. In one district this resulted in excess salt usage of approximately 13,000,000 lbs. at a cost of $140,000.**
- **Weak control over vehicles designated for replacement may have contributed to excessive repairs on these vehicles.**
- **Annual savings of approximately $550,000 could be realized from 12 further patrol yard amalgamations.**
- **District hiring practices for winter seasonal employment were deficient.**

DETAILED COMMENTARY

Overview

The Maintenance Activity is the largest activity under the Provincial Highways Program. Expenditures of this Activity represent about 40 per cent of the total Program expenditures and are split evenly between payroll costs and the purchase of goods and services. Of the Ministry's 10,500 employees, the Activity employed approximately 3,500 including 1,400 seasonal staff, in the head office, regions and districts.

The Ministry's 5 regions and 18 districts are responsible for the efficient delivery of maintenance operations, subject to functional direction provided by the Operations and Maintenance Division at the Ministry's

head office. Approximately 95 per cent of expenditures are incurred at the regional and district level. The districts are broken down into 259 patrol yards throughout the Province, with 9 to 21 yards in each district.

A patrol yard is the headquarters for a small group of maintenance workers and consists of office space, garage facilities, a parking lot for equipment and storage domes or sheds for sand and salt.

Maintenance objectives include the preservation, usability, safety and operations of the 21,000 kilometer provincial highway system. Functions performed are snow and ice removal, roadway and roadside maintenance, traffic management and engineering, emergency repairs, bridge maintenance and controlling highway access.

Snow and Ice Control Operations

Background

The cost of snow and ice control operations during the 1984 fiscal year amounted to approximately $87 million. In order to perform some of these operations, the Ministry hires private operators to assist with snowplowing and salt and sand spreading. In the past few years the Ministry had increased its utilization of private operators to perform these snow and ice control functions.

Initiatives Undertaken to Reduce Costs

In performing our review of winter maintenance operations, we observed that the Ministry has undertaken a number of initiatives over the last few years with the objective of reducing costs of snow and ice control operations. The more significant of these actions include the use of one person plows, privatization of snowplowing and sand and salt spreading, consolidation and rationalization of patrol areas and a reduction in the number of shifts.

In general we felt that the Ministry had demonstrated due regard for economy in undertaking these initiatives.

Prior to 1982, all snowplows with a wing (small plow attached to the side of the main front mounted plow to provide additional plowing width) required a driver and a wingman whose duty was to oversee the wing. During the 1982-83 winter season the Ministry authorized the limited use of one person plows (with wings) for the purpose of increasing efficiency and cost effectiveness, provided the operation was found to be safe. This experiment was continued during the 1983-84 and 1984-85 winter seasons. For the 18 districts, there were approximately 285 one person plows in operation, representing 30 per cent of the total snowplow fleet.

The Ministry had also increased the number of plows operated by private contractors over the last five years with approximately 20 per cent

of the total fleet being privatized. Similarly, 45 per cent of the loaders and 90 per cent of the spreader units were operated by private contractors.

The implementation of a day-shift-only staffing experiment in 1983-84 for one patrol yard in the Toronto district, had proved to be cost effective while providing an acceptable level of service to the public. This initiative was extended to seven patrol yards for the 1984-85 season.

From 1976 to 1984, 39 patrol yards were closed by the Ministry in an effort to reduce costs and streamline operations. We were informed that an additional 16 patrols are to be phased out in the future.

We commended the Ministry for undertaking cost effective initiatives such as these while endeavouring to maintain an acceptable level of service.

Excessive Salt Usage

In the 1984 fiscal year the Ministry used 569,000 tonnes of salt at an approximate cost of $17.6 million. The Ministry purchases its supply of salt and maintains it in domes located at the local patrol yards. Each district predominantly uses contractors or hired equipment operators to spread the salt.

Since salt has a negative impact on the environment, the Ministry of the Environment has issued guidelines and control procedures for the use of road salt in Ontario. These guidelines endorse the road salt application rate employed by the Maintenance Branch.

We reviewed the salting records of six districts to determine whether the application rate for salt was properly monitored and in accordance with the standard. We noted the following:

- Two districts monitored salt usage per kilometer daily and were spreading salt at rates in accordance with the standard.

- **Two districts recorded total salt usage daily, but did not record the number of kilometers salted.** Therefore, the district could not determine whether the salt application rate per kilometer was within the standard.

- **Two districts recorded total salt usage once every two weeks. In one of these two districts the patrol yards did not record the number of kilometers salted** and consequently the district was unable to determine whether the salt application rate was within the standard. **However, in the other district most patrol yards did record the distance although the district office did not use this data to routinely calculate whether the yards were meeting the standard rate of salt application.** Using this data we were able to determine the application rate for salt usage and noted:

—**Of the 14 patrol yards in that district, four used excessive quantities of salt.**

—The rate of salting ranged from 217 kg/km to 350 kg/km which is significantly in excess of the 130 kg/km standard or even the 180 kg/km maximum permitted by the Ministry. **Salt applications in excess of the maximum acceptable rate of 180 kg, as well as having a negative impact on the environment, increased usage by an estimated 6,000,000 kg costing approximately $140,000.**

We acknowledged that the Ministry recognized the significance of the salt application rate, as was evidenced by a Ministry comment in a government publication that the Ministry take "care to apply no more salt than absolutely necessary to maintain the accepted level of road service."

However, in light of the excessive usage of salt in the aforementioned example, and the fact that three of the six districts did not even maintain adequate records to determine whether salt applications were in accordance with established standards, we questioned whether adequate care was being taken in this area.

Accordingly, both from the standpoint of possible substantial savings and the environmental consequences of using excessive salt, we recommended that the districts implement the necessary procedures to enable them to more closely monitor the salt application rate of the patrol yards within their jurisdiction.

District Garages

Background

Each district has a garage located at or near the district headquarters to enable the district's fleet of vehicles such as snowplows, graders, automobiles and trucks to be maintained in operational condition.

The Ministry had approximately 17,000 vehicles and equipment with an original cost of $82 million. The cost of preventive maintenance and repairs, including that done by private sector garages under the supervision of the district garages, was approximately $21 million in the 1984 fiscal year.

Excessive Repairs on Replaced Vehicles

According to the Equipment Manual, vehicles should be replaced when repairing them becomes uneconomical because of a combination of the age of the vehicle and kilometers driven. The Equipment Engineering Office must approve a district's request for a vehicle to be replaced and, if approved, the district receives the new vehicle about one year later. In the interim the district continues to use the vehicle to be replaced, provided it can be maintained at minimal cost. In the event of a costly breakdown, the

district should consider grounding the vehicle and requesting a short-term replacement vehicle through the Equipment Engineering Office.

The Equipment Manual specified that all major repairs, defined as more than $1,500 on a two ton truck and more than $5,000 on a three ton or larger truck, were to be approved by the Equipment Engineering Office as alternate vehicles might be available and could be provided on short notice.

In December 1980 the Equipment Engineering Office, acting on a recommendation from the Ministry's Management Improvement Branch, required only district approval of major repairs but requested that they be informed of any such repairs by the district. This change, however, was never reflected in the Manual and we noted that there was some confusion at the district level, as to the exact policy to be followed.

As a result of this policy change we reviewed repair records for a number of vehicles designated for replacement to determine whether there were any instances of apparently excessive repairs. We noted the following:

- A four ton truck purchased in 1976 for $11,000 was approved for replacement in August 1983. Between this time and September 1984, when its replacement was received, the district spent $10,700 to repair the vehicle including a major repair for a rebuilt engine.

  An additional $4,300 was spent on this vehicle to December 1984 when it was taken out of service and scheduled for auction. **Repair expenditures incurred after the vehicle was approved for replacement totalled $15,000, yet the vehicle which replaced it cost $13,800.**

- Another district purchased a 1980 two ton truck for $6,900. This truck was approved for replacement in July 1984. **Between August and October 1984, the district spent approximately $9,300 to repair this vehicle including one major expenditure for $7,100, yet the estimated replacement cost was $10,800 for a 1985 model.**

In both of the above instances, the Equipment Engineering Office was never notified of the major repair expenditures incurred despite the fact that it had available alternate vehicles which the district could have used. We recommended that the Ministry reconsider having the Equipment Engineering Office approve all major repairs on vehicles scheduled for replacement.

Further Patrol Yard Amalgamations Possible

From 1976 to 1984, 39 patrol yards were closed through amalgamation with other yards. An additional 16 yards are to be closed

over the next few years, after which there will be 11 districts that have been able to reduce the number of yards to less than 14 per district.

Using the Ministry's planning guidelines for the location of patrol yards, we reviewed four of the 18 districts in detail to assess whether certain yards could be amalgamated. **Our analysis indicated that there was the potential for 12 additional yard amalgamations in these four districts by allocating the roads of a small yard to the neighbouring 2 or 3 yards, as has been done in past amalgamations.**

The savings to the Ministry from these amalgamations would approximate $550,000 in annual operating costs, mainly from the reduction of patrol supervisor and night patrolmen wages and overhead costs such as heat, light and power.

Since our review focused on only four districts in the Province, we recommended increased Head Office and regional monitoring to ensure that all potential amalgamations are being identified.

Questionable Unclassified Hiring Practices

Approximately 1,400 seasonal part-time employees were hired for winter and summer maintenance activities during the 1985 fiscal year. Of these, 750 employees were hired during the winter, primarily to assist in the operation of snowplows. They were paid an average wage of $9 per hour. Typically, 25 per cent were new hirees while the balance were individuals who return each year.

Normally, individuals interested in working for the Ministry submit an application to the district outlining their background and qualifications. These applications serve as a record of all interested and qualified applicants for future reference.

In our previous year's audit report to the Ministry we questioned whether all qualified job applicants had been given equal opportunity for seasonal and part-time positions. The Ministry acknowledged our concern and stated that a more structured staffing process for regular part-time employment would be introduced.

Accordingly, during our review of the Maintenance Activity this year we followed up on this issue by reviewing the hiring practices at four districts for new winter seasonal employees. We noted that:

- **In all four districts there was no documented evidence of any interviews or any rationale behind particular hiring decisions.**
- In one district there were no related job applications on file for eleven new seasonal winter hirings.
- In one district there were job applications on file for four new 1984 seasonal winter hirings. However, one application was dated

the same day the individual started work while two applications were dated three days before the start date.

In discussing this issue at the district level, we were informed that the various patrol supervisors were generally given a 'free hand' in the hiring process and often hired someone they personally knew who they felt could do the job.

For example, in one of the districts, where the application was dated just before the starting date, we were informed that the individual was a personal acquaintance of the Supervisor who arranged the hiring. This applicant, whose previous work experience was as a cook, was hired as a nightwatchman. However, another applicant, a former security guard, was not considered.

In addition, applicants with no previous experience on snowplows were hired as snowplow helpers, yet there were several applications on file of former Ministry employees with snowplow experience who were not rehired. In reviewing the previous year's documentation for these employees, we noted that they all had been recommended for rehiring.

Accordingly, we again questioned whether the Ministry's unclassified hiring practice provided an equal opportunity to all interested applicants. We were informed that the Ministry had placed this matter "on hold" pending certain ongoing discussions with the union and the passing of Bill 54 which could affect the status of seasonal employees.

The following reply was received from the Deputy Minister on September 20, 1985:

Excessive Salt Usage

> *"Following a review of this matter by Maintenance Branch staff, it is agreed that there is a need to implement monitoring procedures. Two of the six Districts audited were found to have good monitoring and control procedures in place. They will be considered as possible models and, before this coming winter, appropriate instructions will be issued to all Districts."*

Excessive Repairs on Replaced Vehicles

> *"We agree with this recommendation and are taking steps to issue instructions to give it effect."*

Further Patrol Yard Amalgamations Possible

> *"As noted in the report, the number of patrols has been reduced considerably over the past several years. There is probably the potential for some limited further*

consolidation but there are several factors to be considered beyond the simple matter of length of patrol. These factors would include current investment in facilities, cost of expanded facilities for consolidated patrols, geographical configuration, climate, local employment base and other local sensitivities. The Director, Maintenance Branch, will consult with the Regional Maintenance Engineers to ensure potential amalgamations are identified. Such amalgamations, however, may not be in the number or at the locations envisaged by the auditors."

Questionable Unclassified Hiring Practices

"It appears that the action taken in 1984 in response to last year's audit report has not been totally successful.

"Directions will be issued to the Regional Directors to ensure that there is documentation on file to support the filling of unclassified positions in the Districts. Instructions will be issued that all qualified individuals who have applied will be considered when filling vacancies to ensure fair and equitable treatment of all applicants."

3.19 Deficient Management Controls, Board of Industrial Leadership and Development, Ministry of Treasury and Economics

The Board of Industrial Leadership and Development (BILD) was established to provide direction-setting economic policy initiatives in the 1980's and beyond. Total BILD expenditures were approximately $1.3 billion for the four fiscal years of its operations ending March 31, 1985.

Audit Objectives

- To assess whether accountability relationships were clearly established and established levels of authority were adhered to.
- To determine whether there was aggregate reporting of results achieved in relation to the overall stated objective of BILD.
- To assess systems of management control in selected ministries.

Our audit focused primarily on a sample of the approximately $126 million long-term initiatives where new systems and administrative arrangements were required in order to deliver the program or project.

We concluded the following:

- **Accountability relationships were clearly established and established levels of authority were adhered to.**

- **There was no reporting of aggregate results relating to overall BILD objectives.**
- **Some systems of management control relating to individual BILD initiatives in ministries were deficient.**

DETAILED COMMENTARY

Overview

The Board of Industrial Leadership and Development was established on November 13, 1980 and consisted of a Committee of nine Cabinet Ministers. BILD's responsibilities included coordinating the government's total economic development effort, and providing a focus for economic liaison with the federal government and other concerned interests.

The Province allocated $750 million to BILD over five years, and it expected equivalent moneys to be generated by federal, municipal and private sector participation, and by redirecting internal priorities within the Ontario Government.

Subsequently, BILD assumed obligations under the Employment Development Fund and the Regional Priority Budget. Beginning in 1982, BILD also coordinated a number of special, short-term employment programs, including acceleration of public capital expenditures, and the Canada-Ontario Employment Development Program, a wage subsidy program sponsored jointly by the private, public and non-profit sectors. In 1984, the BILD portfolio was expanded further to include youth employment and youth skills training initiatives.

Total expenditures for the over 80 original BILD initiatives amounted to approximately $643 million for the four fiscal years ended March 31, 1985. The short-term job creation and skills development programs represented an additional $670 million of expenditures for the three year period then ended.

Overall BILD Accountability

BILD and the funding mechanisms it employed in the administration of its expenditures represented a departure from traditional government accountability and funding relationships.

In order to achieve BILD's broad objectives, many of the ministries and agencies of the Ontario government had to be involved in delivering BILD programs. Over 100 such programs and projects were delivered through ministries and agencies. BILD coordinated these efforts through a Secretariat having a staff of seven.

Estimates Process and Funds Allocation

All funds pertaining to BILD projects were voted upon under one vote and item in the Estimates of the Ministry of Treasury and Economics as part of the normal budgetary process. Although the BILD funds were included in these Estimates, the Ministry itself was not required to control the allocation of funds to individual programs within BILD. This function was performed by the BILD Secretariat as directed by the Board and approved by Cabinet.

Approval and Funding for Individual Programs/Projects

- Initiatives were always sponsored by the ministry most closely associated with their source. Sources included Crown agencies and private sector organizations. Proposals were prepared by the Ministry and submitted to BILD for approval.
- The BILD Secretariat reviewed the submissions and ensured all necessary information had been obtained. The Secretariat would then circulate the submission to interministerial staff and assemble any comments for consideration by the BILD ministers.
- The BILD ministers, after deliberation and assessment, recommended the programs or projects for Cabinet approval.
- The specific programs or projects were approved by the full Cabinet. If a program had several small projects, the Cabinet normally delegated the approval of those projects to ministries. Larger projects were always reviewed and approved by the Cabinet.
- Funding of individual programs varied. Some programs were funded entirely by BILD while others were cost-shared with the delivering ministry or agency. Some programs were given multi-year funding, with specific spending levels in any given year, while others were allocated gross amounts to be spent in a specified time frame.

Cash Flow

As expenditures were incurred and paid by the ministries and agencies, they were recovered from the BILD account in the Ministry of Treasury and Economics. In general, only direct expenditures were recoverable. Overhead costs such as administrative salaries were not recoverable, even if they were increased because of BILD projects.

Cash flows were monitored by the BILD Secretariat through monthly reporting of actual expenditures and forecasts by the ministries and agencies.

Lack of Reporting on Overall BILD Objectives

Although the ministries were responsible for actual delivery of the programs/projects, BILD maintained overall responsibility for funds. A memorandum dated August 14, 1981 issued to all ministries involved in delivering BILD programs stated:

> "BILD itself is accountable for the judicious use of these funds, and will report periodically to the Legislature on the performance of BILD projects. This public reporting on results should suffice as well, for internal MBR purposes."

BILD did not request, nor did it receive from ministries any information about the economy, efficiency or effectiveness of programs or projects funded. Although a number of programs we reviewed had very specific objectives, achievement of those objectives was not monitored. Monitoring activities related only to cash flow and project status information.

For those programs and projects funded entirely by BILD, ministries were not required to prepare any Estimates or 'Management by Results' (MBR) submissions to Management Board of Cabinet, as required for most other government programs or projects. **Thus, performance of these programs was not subject to formal appraisal.**

Where BILD shared the cost of new or existing ministry programs, MBR 'Abstracts' were prepared and submitted to Management Board of Cabinet. Therefore, these programs were subject to the normal scrutiny afforded other programs. **However, BILD did not request or use any of the reported results as a basis for assessing the contribution these programs made to overall BILD objectives.**

There have been no reports issued on the activities or achievements of BILD since February, 1983. To that time, two annual reports had been issued, which simply summarized the overall objectives, policy thrusts and approved programs, projects and commitments to date.

It should be noted that, because of the nature of BILD, much of the information supporting program decisions and monitoring would have been contained in Cabinet submissions which, as a matter of policy, are not subject to our review. Consequently, we acknowledged the possibility that other performance information may have been presented to BILD and to Cabinet.

Deficient Management Controls

Because of the small size of its Secretariat, great reliance was placed by BILD on ministries to have established adequate controls to

ensure due regard for economy and efficiency and that BILD funds were spent for the purposes intended. However, since ministries were not required to report their actual results from the use of BILD funds, these controls were simply assumed by the Secretariat to be in place.

From the sample of programs audited we observed that:

- **Because BILD approved and funded programs, some program managers did not feel as accountable for results as they otherwise would have.**
- **Some programs had inadequate controls to ensure that moneys were spent for the purposes intended.**
- **Information on economy, efficiency and effectiveness was not being gathered.**

The following examples serve to illustrate our concerns.

Hybrid Poplar Program (Ministry of Natural Resources)

The major objective of this Program was the growing of hybrid poplars on a commercially viable scale for industrial applications. BILD approved this program in principle in March 1981 at an estimated cost of between $4 to $10 million over five years, and directed the Ministry of Natural Resources (MNR) to proceed to arrange for specific proposals.

In September 1981 a grant of $1,429,000 over five years was approved to establish a 1,250 acre plantation on Crown land in Carlsbad Springs near Ottawa. The goal was to provide a high grade fuel supplement to the waste material burned in the Ottawa-Carleton district heating plant used for federal and municipal buildings.

By the time the work on the project commenced, demand for the Carlsbad Springs poplar trees for fuel had virtually disappeared because:

—the rate of price increases for fuel oil had been less than originally estimated;

—a natural gas pipeline had been installed in the area, decreasing the cost of natural gas as a heating alternative; and

—the Ottawa-Carleton district heating plant had decided to burn municipal waste exclusively.

Nevertheless MNR commenced planting in 1984-85. Planting will now be completed in 1986-87 at a total cost of $223,000. Annual tending costs for the site are estimated to be $100,000 per year. We were advised that there is a demand for hardwood pulp in Eastern Ontario and the Ministry will endeavour to sell the hybrid poplars as hardwood pulp to recover some of the costs.

We concluded that since conditions affecting this project had changed

significantly after BILD approval was obtained in September 1981, and that the Program's objectives could no longer be met, justification for proceeding with the project was not evident.

Custom Gold Mills Program (Ministry of Natural Resources)

BILD had originally allocated $10 million to provide interest free, forgivable loans of up to $1 million each to private firms for the construction of ten small custom gold mills in selected areas. Estimated expenditures under this program were revised downward to approximately $7 million in August 1982.

It was felt that these facilities would encourage exploration, promote the development of new mines in Ontario and help revive old mines by providing local custom processing services. The objective of the program was to assist those mining entrepreneurs who did not have sufficient financial resources or volume of proven ore to justify their own mills.

At the time of our audit, the following three agreements existed:

Agreement #1	March 15, 1982	$1,000,000
" #2	November 8, 1982	780,100
" #3	February 27, 1984	950,000

Because of the significant drop in the price of gold since the inception of this program, the demand for custom milling services has been negligible. Desired capacity for custom milling is between 100-200 tonnes per day, yet the mill operators for Agreements #1 and #2 processed less than 10 per cent of this because of insufficient demand for the service. Specifically:

—The operator in Agreement #1 processed 2,221 tonnes of ore during his first year of operation commencing August 1982. The mill then shut down because the price of gold was too low to sustain operations. The BILD agreement was subsequently amended to allow leasing of the mill and was extended for nine months to compensate for the shutdown period.

—The operator in Agreement #2 processed just 27 tonnes of custom ore during its first operating period running from March 1984 to February 1985. The operator then ceased operations after forgiveness of 20 per cent of the loan. We were advised by the Ministry that they have recovered the remaining 80 per cent of the loan not forgiven.

Despite the minimal demand for custom milling services, and reduced activity in the industry generally, BILD committed $950,000 to Agreement #3 signed February 1984, which was to be completed in the summer of 1985. Unless there is a significant upturn in the market, it is very unlikely that the

demand for custom milling services at this facility would be any different from the other two facilities financed by BILD.

Food Processing Program (Ministry of Agriculture and Food)

The objective of the Program was to encourage expansion of Ontario's food processing industries and agricultural production by increasing the Province's share in both domestic and export markets of certain processed foods. BILD allocated $20 million over five years towards this Program.

To March 31, 1985, BILD approved and advanced funds to 12 food processing companies as follows:

7 grants totalling	$10,775,000
4 loans "	2,480,000
1 forgivable loan	96,500
	$13,351,500

The grant and loan recipients invested approximately another $67 million in their respective facilities.

To encourage compliance with the various loan and grant agreements, terms were outlined in signed, written agreements between the Province and the various food processors. Three were non-operative at the time of our audit.

—The first BILD grant for $350,000 was advanced to a processor in July 1981 without arrangements for the supplementary financing necessary to complete the project. Although the facility was eventually completed, the processor was subsequently put into receivership on October 31, 1981 resulting in a full loss of the BILD funds.

—Two loan recipients, having received $800,000 each, have since been unable to comply with the requirements of their agreements. We were advised by Ministry officials that one of the companies was bought out by another company which agreed to honour the BILD agreement and the liability. The Ministry was negotiating with the other company to terminate the agreement.

Three of the other food processors did not comply with the terms of their agreements:

—One processor did not provide the minimum capital investment required by the agreement, falling short by approximately $100,000 from a total required investment of $1.8 million, of which one-third was funded by BILD. **Furthermore, the actual**

investment of $1.7 million included $1.1 million in routine equipment and maintenance expenditures not related to the terms of the agreement.

This same processor also did not meet its minimum purchase requirements of a major Ontario commodity and in fact purchased less of this commodity after the BILD funds were advanced. In addition, the processor was required to purchase minimum quantities of eleven other commodities. The processor was unable to establish the quantities of these commodities purchased and therefore demonstrate compliance with the terms of the agreement.

—Two other processors were also significantly below the established minimum purchase requirement for Ontario produce and thus were not fulfilling the objective of the program. One processor made no attempt to monitor its Ontario purchases and in fact purchased a significant amount of its primary commodity from outside the Province.

We concluded that the cases of non-compliance were largely due to the lack of a systematic approach by the Ministry in monitoring compliance with food processing agreements. Rather, it relied on sources such as the Growers' Associations, to inform it about complaints relating to non-compliance, and on the Ontario Development Corporation (ODC) to monitor financial status of grant or loan recipients. Furthermore, the Ministry was unaware of all the work undertaken by ODC. For example, a case of non-compliance noted in ODC files was not communicated to the Ministry. We were advised by Ministry officials that shortage of personnel in the past has prevented them from monitoring the program more effectively.

We recommended that the Ministry institute formal monitoring procedures to encourage greater compliance with the agreements.

The Deputy Treasurer replied on October 23, 1985 and attached responses from the Ministries of Natural Resources and Agriculture and Food.

General (Deputy Treasurer)

"I have shared the report on the audit of the former Board of Industrial Leadership and Development with the . . . ministries whose programs were examined by your office.

"I appreciate that this audit posed special difficulties for your office. BILD was a Cabinet committee with authority over a substantial discretionary fund. Much of the information which normally would have been reviewed in the course of an audit was contained either in submissions to Cabinet or in minutes of Cabinet and, as a matter of policy, this material is deemed to be confidential.

"Your conclusions, with respect to performance measures and results reporting, are qualified by these unique circumstances."

Lack of Reporting on Overall BILD Objectives

The Ministry of Natural Resources responded:

"MNR provided a year-end report as well as quarterly program and project reports to BILD each fiscal year since inception of the program in 1981-82."

Hybrid Poplar Program (Ministry of Natural Resources)

"It is true that the short term demand for forest biomass changed for the reasons noted . . . however, these changes did not occur until after the startup of the project. Since the land was available, the project was underway and no other use was foreseen at that time for the property, it was felt that forest biomass could be produced by MNR as pulpwood, rather than for energy.

"This decision was made since a paper mill, which is located nearby, imports into Ontario approximately 60-65 percent of its annual two to three hundred thousand cord requirements. This is done at considerable loss in value added to this province. Therefore, the biological specifications of the project were amended, and it was converted from production of biomass for energy on a short rotation, to the production of short rotation pulpwood. This course of action is flexible in that it would permit the final product to be used for energy, should the demand arise again."

Custom Gold Mills Program (Ministry of Natural Resources)

"The area around the operator of Agreement #3 is very active in the exploration for gold and much more custom milling activity is expected. Although the price of gold is currently low compared with recent times, it is still nearly ten times higher than it was sixteen years ago when the price was pegged at thirty-five dollars an ounce. Base metal prices are presently low and are expected to remain low for some time. The major producers of base metal are becoming more involved in the exploration for precious metals. The Timmins area has been a major gold camp since 1912. Consequently a significant amount of exploration activity is presently taking place in this area which is expected to increase the demand for the custom milling facilities offered by this operator."

Food Processing Program (Ministry of Agriculture and Food)

> *"The Ministry has no disagreement with the draft report. It should be restated that the Ministry has initiated with the Ontario Development Corporation a formal, systematic monitoring and follow-up procedure on food processing projects."*

3.20 Expenditures of Royal Commissions

Royal Commissions are defined in the Ontario Manual of Administration as "commissions, judicial inquiries, inquiries and other investigatory bodies appointed by order in council under the power of the Public Inquiries Act or appointed under any other Act where the investigatory body is given powers of a commission appointed under the Public Inquiries Act."

Expenditure detail for the $3,472,217 incurred by Royal Commissions in the 1985 fiscal year is reflected, for the most part, in Volume 3 of the 1984-85 Public Accounts. A summary of Royal Commissions that incurred expenditure during the 1985 fiscal year is as follows:

	Date Established	Status as at March 31/85 *	Expenditure 1985 $	Cumulative Expenditure $
Northern Environment	July 13/77	In Process	774,144	10,846,950
Health and Safety Arising from Use of Asbestos	Apr. 20/80	Completed	70,849	1,699,158
Fire Safety in High Rise Buildings	June 30/82	Completed	7,649	163,437
Residential Tenancy	Nov. 26/82	In Process	892,958	1,672,233
Certain Deaths at the Hospital for Sick Children	Apr. 21/83	Completed	1,083,293	2,915,779
Complaints Concerning His Honour Judge Lloyd Henrikson	Aug. 27/84	Completed	132,885	132,885
Private Schools in Ontario	July 26/84	In Process	187,510	187,510
Financing of Elementary and Secondary Education in Ontario	July 26/84	In Process	322,929	322,929
			3,472,217	17,940,881

* Considered completed when final report issued.

In addition, during the 1985 fiscal year a Commission was established to conduct an inquiry into the proposed regulatory and administrative program of the Ministry of the Environment to effectively deal with the establishment and operation of mobile PCB destruction facilities on temporary sites. This Commission was formed from the membership of the Environmental Assessment Board. The expenditures of this Commission are not readily available since they were included with those of the Board.

4

COMMENTS ON CROWN AGENCY OPERATIONS

4.1 Introductory Comments

The term Crown Agency for purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations, as defined in Exhibit 1 of this Report. A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1985 is included as Exhibit 7 of this Report.

4.2 Sunset Review Process for Agencies

Management Board Secretariat's list of agencies, including groups of agencies (such as hospitals, universities and technology centres), totalled 281 as at March 31, 1985. These agencies meet one or both of the following criteria:

- organizational units with ongoing responsibilities to which one or more of the members are appointed by the government;
- corporations in which the government is a majority shareholder.

Agencies are classified into three general categories, advisory, operational and regulatory. As explained in our 1984 Report (section 4.2), all advisory agencies are subject to sunset review. In addition, all operational and regulatory agencies established after March 12, 1980 are subject to sunset review unless Cabinet specifies otherwise. Of the 30 such agencies established after that date, Cabinet has exempted 8 from sunset review.

The objective of a sunset review is to determine as at a specified date whether an agency should be continued for a further period of time or discontinued. A review is undertaken by the responsible ministry in consultation with other ministries, individuals and groups as appropriate. The policies, procedures and guidelines for sunsetting an agency are outlined in the Ontario Manual of Administration.

Over the period of the sunset review process the number of agencies has continued to increase. The following is a summary of the relevant activity for the 1985 fiscal year.

	Advisory	Operational	Regulatory	Total
Agencies as at March 31, 1984	70	86	119	275
Agencies established during 1984-85	6	3	5	14
	76	89	124	289
Agencies terminated as a result of sunset review process	4	—	—	4
	72	89	124	285
Agencies amalgamated with other Agencies or which no longer meet established criteria	—	1	3	4
Agencies as at March 31, 1985	72	88	121	281

4.3 Questionable Arrangements Concerning a Private Club and Other Matters, The Centennial Centre of Science and Technology

The Centennial Centre of Science and Technology (Ontario Science Centre) conducts educational programs and displays for the public, portraying the origins, development and progress of science and technology, its relationship to society, and Ontario's role in promoting science and technology.

As at March 31, 1985 the Centre's assets totalled $727,000 with corresponding liabilities of $87,000, retained income of $77,000, and a $563,000 Special Purposes Fund balance, consisting of donations for the Centre. The Centre's revenue for the 1985 fiscal year (including grants of $8.7 million from the Province) was $11.3 million, and expenditures totalled $11.2 million.

We made a number of observations during our current year's audit.

- **We questioned the arrangements between the Centre and two organizations presenting programs at the Centre.**
- **Advances of $17,000 provided by the Centre for an April retirement party were not accounted for as of July 1985.**
- **We questioned reciprocal arrangements allowing free admission of Centre staff to other attractions.**

OSCOTT PROGRAMS

Prior to September 1983, a private club, OSCOTT, developed and presented educational science programs to children and youth at the Centre. Members of the club included staff of the Centre who also presented OSCOTT programs. Program participants did not have to pay the regular admission fee to the Centre, but paid a program fee to the OSCOTT club.

Effective September 1983, the operations of the club were transferred to a registered charitable Ontario corporation which had the then Director General of the Centre as one of its directors.

The following observations were made during our initial review in February 1985 and subsequent follow up of the operations of the OSCOTT programs:

—**No written agreement existed between the club/corporation and the Centre to clarify their respective roles and responsibilities.**

—Publicity and promotional brochures produced by the Centre gave the perception that the OSCOTT programs were operated by the Centre. **However, neither the financial operation of the club/corporation nor the quality of programs produced were subjected to control by the Centre.**

—The Centre provided support services such as office space, utilities, telephone, furniture, photocopying, printing and postage to the club/corporation without charge. Details of such expenditures were not available. **We were therefore unable to determine the costs of services provided to support the operation of the club/corporation.**

—OSCOTT program fees for the year ended June 30, 1984 were about $75,000. **The Centre, however, did not receive any revenue from the operation of the OSCOTT programs.**

—In November 1984, the Centre paid a $15,000 fee to the corporation for operating the OSCOTT programs. The payment was recorded as a charge to the Centre's operating expenditure. **This payment was a financial assistance grant which should have received prior approval from Management Board.** Similar grants totalling $43,000 were subsequently paid to the corporation from the Centre's Special Purposes Fund.

As of July 1, 1985, an agreement was signed between the Centre and the corporation to assign responsibility of the OSCOTT programs to the Centre. The agreement also called for a decision to be made, no later than December 31, 1985, as to whether the existing arrangements (use of Centre facilities) between the corporation and the Centre should be continued.

RETIREMENT PARTY

A retirement party at $50 per plate was held on April 30, 1985 for the Director General. Three advances totalling $17,000 were made during the period February to July 1985 by the Centre from its Special Purposes Fund to the Committee responsible for the party. **As of July 26, 1985 the**

Centre had not received any accounting of the financial transactions related to the party. It was unclear whether all the advances made were to be recovered from the proceeds of the party.

Further, in our opinion, the Centre does not have the statutory authority to financially support this event since it did not further the Centre's objectives.

RECIPROCAL ARRANGEMENTS

The Centre had reciprocal arrangements with Ontario Place, CN Tower, Metro Zoo, Canada's Wonderland and the Royal Ontario Museum whereby full and part-time staff, with one guest, were allowed free admission to each attraction. We were told that the purpose of these arrangements was to enable staff to become more knowledgeable, in order to promote the facilities of other attractions.

In view of the advertising and publicity campaigns carried out by the Centre and other attractions, we questioned the need for such arrangements.

STUDY OF CENTRE'S OPERATIONS

The operations of the Centre were reviewed on behalf of the Ministry of Citizenship and Culture by a firm of management consultants. Comments and recommendations made in the consultant's report dated July 1984 included the role of the Board of Trustees and its relationship with the Director General and the need for a strategic plan for the Centre.

The report concluded that the course of the Centre must be re-charted and suitable organizational and administrative structures must be put in place.

The foregoing matters were reviewed in draft form with officials of the Centre. However, no formal report had been issued as at September 30, 1985. Therefore, we are unable to present the Centre's views on the matters raised.

4.4 Excessive Administrative Expenditures, IDEA Corporation

The IDEA Corporation, a corporation without share capital, was established in 1981 to promote the process of technological innovation in Ontario, to bring together the research capacities of the public and private sectors, and to enhance the growth and employment prospects of the economy. The Corporation's audited financial statements for the year ended March 31, 1985 are reproduced in Volume 2 of the 1984-85 Public Accounts.

Although we were generally satisfied with the Corporation's accounting records and system of internal control, our audit revealed instances where there had

been a lack of due regard for economy or where opportunities for improved economy existed.

- **High occupancy costs have resulted from leasing office space in excess of requirements.**
- **High termination benefits were awarded to executives whose terms of employment were not approved by the Board of Directors.**
- **Excess office equipment was acquired.**
- **No competitive bids or tenders were obtained for consulting contracts involving over $200,000 in payments.**
- **Excessive costs were incurred in partially completing the Corporation's corporate brochure before production was suspended.**

Leased Office Accommodation

The Corporation is incurring high occupancy costs ($584,000 in 1984-85) by leasing office space in excess of its current and future requirements.

In May 1983 the Corporation entered into an agreement to lease 18,063 square feet of office space. The lease has a term of nine years commencing May 1, 1983 and terminating on April 29, 1992.

The annual rental rates range from $20 to $30 per square foot. The Corporation also pays for certain operating costs and charges (averaging $8.64 per square foot in 1984-85) such as cleaning expenses, utility services and realty taxes. **Including these operating costs, the minimum rental payable over the term of this lease is estimated at $6.7 million.**

Because of the design of the building and the terms of the lease, the Corporation is required to pay rent for a significant amount of common area space (2,346 square feet). Also, because the Corporation's expansion plans have not been realized and there were no immediate plans to increase staff complement (36), occupancy costs of over $16,000 per employee were excessive. In fact, when compared with guidelines established for public service office accommodation, **the current space may be as much as twice that actually required.**

We understood that management was examining a number of alternatives aimed at reducing occupancy costs.

Payments to Senior Executives

During the last three fiscal years, the Corporation hired five senior executives in the capacity of Vice Presidents to manage its business operations. These executives were hired on behalf of the Corporation by a

recruitment agency for fees and expenses totalling $132,000. **We noted that their terms of employment were not approved by the Board of Directors nor was there such a requirement in corporate policy.** The average remuneration of these executives in the 1985 fiscal year was approximately $91,500, including automobile expenses, bonuses and other benefits.

At its meeting of May 10, 1985 the Executive Committee of the Corporation's Board of Directors approved, for each of the five Vice Presidents, a salary increase of five per cent for the 1986 fiscal year and a bonus of $5,000 applicable to the 1985 fiscal year. These bonuses were not based on any documented assessment of individual performance or criteria, nor was there a contractual obligation to pay them.

Later in May 1985 the Corporation terminated the employment of four of the five Vice Presidents. Three departed on May 31, 1985 and one remained until July 31, 1985.

Under termination agreements with these four executives the Corporation was liable for settlements, including severance pay and other benefits, to a maximum of $333,000. The other benefits included professional and club membership fees, as well as the use of executive automobiles for the lesser of one year or the time when the executives obtained employment elsewhere. At the time of our audit one executive had already obtained employment elsewhere and his final settlement was included in the maximum liability described above.

In view of the significant costs involved in executive compensation, we recommended that all future employment contracts for senior executives be approved by the Board of Directors of the Corporation.

Office Equipment

The Corporation acquired office equipment in excess of its needs.

In February 1983 the Corporation retained a consulting firm to assist with the planning and selection of its office equipment needs. The firm recommended the installation of three microcomputers and a two station word processor operating in a centralized word processing centre. The report also recommended that the long-term growth of the Corporation could be met by adding one more word processing centre in the future. The costs for this study totalled approximately $24,700.

In August 1983 the Corporation retained a second consulting firm to analyze the recommendations submitted by the first consulting firm. In a report dated May 1984, the second consulting firm recommended that the data processing needs of the Corporation be expanded significantly. Costs for this analysis amounted to $8,250.

During the past two fiscal years the Corporation acquired data processing equipment, consisting of four microcomputers and fourteen complete word processing systems (most including printers), at a total cost of about $217,400. Annual maintenance costs for this equipment are approximately $19,000. The equipment was acquired on the basis that a complete word processing system was required for each secretary employed by the Corporation.

As at March 31, 1985 the Corporation employed a staff of 36, and the number of support staff had been reduced significantly. During the course of our audit, we observed that only three to five of the microcomputers and word processing systems were in use at any one time. This period might not have been typical of normal usage, because of the many changes occurring in personnel and corporate plans. However, full usage of all the equipment on hand is unlikely in the foreseeable future.

Although plans for corporate expansion had not been realized, we felt that there was a lack of due regard for economy in not acquiring equipment more in line with actual requirements. Even if one machine per secretary were considered appropriate, printers and secretaries are resources which could easily have been shared.

We recommended that the Corporation review its alternatives for word and data processing applications and dispose of idle or underutilized equipment on hand.

Consulting Services

Due regard for economy dictates that services of appropriate quality be obtained at the lowest possible cost. Our audit revealed significant deficiencies in the awarding of contracts and in the monitoring of consultants' performance. The following examples illustrated our concerns:

(a) In July 1983 the Corporation engaged a consultant to provide managerial and consulting services. **The consultant was retained without requesting competitive bids,** on the basis that his skills were considered unique for the tasks required.

By agreement, the Corporation was to pay the consultant a monthly retainer of $6,000, plus reimbursement of expenses incurred on Corporation business. The agreement required the consultant to provide a minimum of 60 hours of service per month, but did not specify any termination date. Consulting fees paid to the consultant for the duration of the agreement amounted to $151,950.

We were unable to find any documented evidence of senior

management evaluating the performance of the consultant. We noted that the Corporation had terminated the services of the consultant, effective July 14, 1985.

(b) On March 1, 1984 **a subsidiary of the Corporation entered into an untendered agreement with a private firm** to provide managerial and consulting services on a full-time basis for a period of three months. Although no specific performance expectations were stated, the firm was hired essentially to seek out and negotiate investment opportunities. The agreement provided for payment of a retainer of $20,000 per month with an option to extend the contract for a further three months. The contract was not extended and **we found no evidence of the benefits obtained for the services provided.**

(c) On April 26, 1985, **the Corporation entered into an agreement with two consultants, without requesting competitive bids,** to advise the President with respect to the organizational structure and business plan of the Corporation. The consultants were paid a daily rate of $600 each for the six day duration of the agreement, and were also reimbursed for expenses such as hospitality incurred on behalf of the Corporation.

Although the agreement with the consultants had expired, the Corporation continued to retain the services of the consultants on the same basis for an unspecified time and with unspecified results. At the time of our audit, they were performing the duties of Vice-Presidents.

In light of the ongoing need and the costs incurred for the use of consultants, we recommended that the Corporation review its policy and procedures for the selection, hiring and monitoring of consultants, to ensure that such services are acquired and used in the most economical manner.

Publication Expenditure

In September 1984 the Corporation contracted a design consulting firm to produce the Corporation's corporate brochure and 1985 annual report. The firm was responsible for selecting subcontractors, including a photographer, to complete certain aspects of the contract.

The design consulting firm had already commenced work on the contract when the decision was made to suspend production of the brochure, pending some planned corporate organizational changes. **At the time of our audit, payments for work done included $8,600 for producing five colour photographs.** In our opinion such an expenditure is excessive.

On September 20, 1985 the Chairman of the Board replied as follows:

Leased Office Accommodation

> *"We have been examining a number of alternatives aimed at reducing occupancy costs and are keen on moving to alternative premises as soon as possible."*

Payments to Senior Executives

> *"The Corporation agrees with the recommendation and in future all employment contracts for senior executives will be approved by the Board of Directors."*

Office Equipment

> *"The Corporation agrees that the use of all office equipment on hand is unlikely in the foreseeable future. We therefore concur with the recommendation, and plan to dispose of all idle or underutilized equipment currently on hand after a review of alternatives for word processing and data processing applications. This will be done in conjunction with a planned move to alternative premises."*

Consulting Services

> *"The Corporation agrees with the recommendation that, in future, selection and hiring of major consultants will be reviewed and approved by the Board of Directors. In addition, the monitoring of consultants will be done in a formal manner and on a timely basis.*
>
> *"With reference to Paragraph C of consulting services, no competitive bids were requested because the total fees anticipated were less than $15,000 per consultant. In fact, the consulting fees, extending from April 26, 1985 to May 31, 1985, do not exceed the $15,000 maximum.*
>
> *"Commencing June 1, 1985, the Corporation decided to enter into a contractual agreement with the same two consultants, reducing the daily fee to $550 per day and for an unspecified time period. Subsequent to this decision, on August 26, 1985, the Executive Committee of the Board of Directors approved the terms of these contractual agreements and the duration was not to extend past October 31, 1985."*

Publication Expenditure

> *"No more payments have been made to the design consulting firm because the production of the Corporate brochure and the annual report have been postponed. In future, all publication expenditures will be carefully scrutinized to ensure they are not excessive."*

General

> *"The fiscal year, which ended March 31, 1985, saw the fulltime president replaced by an interim president on December 1, 1984.*
>
> *"Subsequent to the year end many changes took place within the Corporation. On April 15, 1985, the interim president was replaced by a new interim president, who was recommended by the Board of Directors to the Minister for appointment as permanent president on July 19, 1985. In May of 1985, significant changes in the business plan were recommended to the Minister. The corporate structure and the management team were totally revamped, and a revised and reduced operating budget was put in place at the same time."*

4.5 Deficiencies in Importing, Selling and Warehousing Functions, Liquor Control Board of Ontario

The Board, a corporation without share capital, is involved in the buying, importing and selling of liquor and in establishing government stores for the sale of liquor to the public. The Board's audited financial statements for the year ended March 31, 1985 are reproduced in Volume 2 of the 1984-85 Public Accounts.

During the current year's audit we noted that:

- **Board procedures and legislation were contravened in the importation of draught beer.**
- **Delays in making the Whitby distribution warehouse fully operational have resulted in additional costs of over $250,000 per month.**
- **Records relating to the sale of American beer to certain licensees were inadequate.**

PRIVATE STOCK IMPORTATION

Background

The Private Stock Department of the Board imports unlisted spirits,

wine and beer on request from individuals for their private consumption, or for agents who place orders on behalf of other persons or licensees. During the year ended March 31, 1985, private stock sales totalled approximately $16.5 million.

The importation of private stock by individuals and agents is subject to certain rules and conditions laid down by the Board. Our review of the application of these rules and conditions revealed some very serious deficiencies in one major instance relating to the importation of draught beer.

Importation of Draught Beer

Since 1979 the Board has permitted a company to act as a private stock agent, on behalf of certain overseas breweries, in order to meet a growing demand for kegs of imported draught beer. The kegs are ordered by the Board upon request by the company, but are shipped directly to the company by the breweries. Each order averages approximately 300 kegs.

We estimated that during the five years ended March 31, 1985 the company imported approximately 110,000 kegs of draught beer, at a cost of almost $9 million. Of this, 35,000 kegs of draught beer were imported in the 1985 fiscal year at a cost of $3 million.

During the current year's audit, we noted several infractions of Board rules as follows:

- When orders placed on behalf of licensees exceed five cases, the Board requires a sample of the product to be submitted for laboratory analysis. However, since April 1983 samples of only 2 of the 13 brands imported had been submitted to the Board for analysis.
- None of the orders placed by the company was supported by a list of names and addresses of the licensees for whom the orders were placed or by a signed copy of an order for each name on the list.
- Required deposits of 25 per cent for each order were not remitted to the Board.
- The remaining 75 per cent was not remitted when the beer was delivered to the company's warehouse. The company made payments on a weekly basis, but only after the kegs of beer were sold to licensees and individuals. The time taken by the company to make payment in full ranged from 17 to 171 days (averaging 85 days). In effect the Board was financing the company's operations.
- The company operated a warehouse to store and sell the kegs of draught beer to licensees and the general public in Ontario and to

other provinces. The Board requires storage in an independent public warehouse.

More significantly we also noted that, contrary to section 3 of the Liquor Control Act and section 4 of the Liquor Licence Act, the company:

- kept for sale, offered for sale and sold beer to licensees and the general public;
- controlled the sale, transportation and delivery of the beer in the company's possession;
- arranged for the maintenance of a warehouse for the beer, and controlled the storage and deliveries from this warehouse.

The Acts explicitly grant these powers to the Liquor Control Board of Ontario, with the only exceptions being the Brewers' Warehousing Company Limited and authorized manufacturers of beer or Ontario wine who are allowed under the Acts to operate retail outlets for the sale of beer and wine respectively.

We also noted the following:

- There was no written agreement between the Board and the company specifying their relationship, responsibilities and obligations.
- Until such time as payment was received in full, title to the inventory of kegs on hand belonged to the Board. However, there was no control exercised over this inventory, nor any evidence of physical inventory counts performed by the Board.
- There was no evidence of any insurance coverage, warehouse bond or surety deposit relating to the inventory of beer held by the company.

In April 1985 we notified the Board's senior management of these contraventions of the Board's rules and conditions, and the governing Acts relating to the importation of private stock.

In a letter dated September 6, 1985, from the Executive Vice-President, Operations, we were advised that Management agreed with our comments. He added that the issues raised clearly identified the need to revise the Board's current practices and to develop new procedures. He also indicated that the Board's future course of action would be to assume total responsibility for the sale of imported draught beer.

WHITBY DISTRIBUTION WAREHOUSE

During the 1985 fiscal year the construction of an automated warehouse in Whitby was completed, at a total cost of approximately $98

million. The new facility was intended to replace four existing warehouses, owned or rented by the Board, thus centralizing the storage and distribution functions for Board owned stores in Toronto and its environs.

Two contractors were hired at a cost of approximately $37 million to install material handling equipment. Installation was to be completed and ready for testing by December 31, 1983. This testing involved "the eight hour test", followed by "the 28 day test and conversion". **The successful completion of such testing would effectively make the systems fully operational by July 1, 1984.**

However, due to delays on the part of one contractor, the eight hour test did not occur until September 1984, at which time it failed badly. Subsequently, another test scheduled for November 12, 1984 was postponed. On November 29, 1984 the Board advised the contractors that, unless they fulfilled their contractual obligations, legal action would be taken to recover any damages. Consequently, the eight hour test was completed by January 18, 1985 and accepted by the Board, with some reservations.

The first 28 day test commenced on February 25, 1985. **However, as of September 13, 1985, because of various problems such as equipment breakdown, the test had not been completed to the satisfaction of the Board.**

At a meeting held with Management on September 30, 1985 we were advised that the test had been completed in the intervening period, but holdbacks totalling $5.5 million had not yet been released to the contractors. Management also advised us that overall, and regardless of the problems experienced, the distribution warehouse had been operating satisfactorily since August 1, 1985, although not at full capacity.

Because of the delays the Board has had to renew its lease on one warehouse to March 31, 1986, and to continue to rent space in two other warehouses on a month to month basis. These arrangements have resulted in additional costs of over $250,000 per month.

SALE OF AMERICAN BEER

As a result of a labour dispute, a lockout by the major breweries in Ontario stopped the flow of beer to licensees, and to the general public as all retail stores were closed from February 26 to March 25, 1985.

In the second week of the lockout, when it appeared that a settlement was not imminent, the then Minister of Consumer and Commercial Relations instructed the Board to obtain beer for licensees and the general public as quickly as possible.

The Board decided to maintain its position against permitting any importation into Ontario, from elsewhere in Canada, of beer produced by

the three major breweries. As a result the Board imported approximately one million cases of American beer from brewers located in states adjacent to Ontario, at a cost of approximately $10 million.

Generally, sales to licensees are on a cash basis. No orders are released unless full payment is received. In most cases involving the importation of the American beer this policy was followed. However, contrary to its policy, the Board permitted the licensee members of the Ontario Hotel and Motel Association (OHMA) to pick up their orders at the Board's warehouses without any payment.

The licensee members placed their individual orders with the OHMA. The OHMA then submitted a combined order to the Board, together with a list showing the name of each member and the number of cases ordered.

Our review revealed the following:

- There was no written agreement between the Board and the OHMA.
- When picking up their orders at the Board's warehouses, OHMA members were required to sign for the number of cases taken. We noted, however, that the members or their representatives signed on either the list submitted by the OHMA, or on a sheet prepared by the Board, or on both. Because of difficulties in reconciling the two sets of records the Board has been unable to determine the precise number of cases actually taken by each member.
- **Proper accounts receivable records were not maintained by the Board. As a result, the Board has been unable to determine the total sales made to each member or the total amount receivable from the OHMA.**

We noted that up to July 22, 1985 the OHMA had remitted an amount of $1,340,000 to the Board and advised that an additional amount of $142,000 was due to the Board. However, due to lack of proper bookkeeping, as noted above, the Board was not in a position to vouch for the accuracy of these figures.

We were advised by the Board that a special task force had been established to verify the amount of American beer purchased and sold during the lockout.

On October 21, 1985 the Board's Chairman and Chief Executive Officer replied as follows:

Private Stock Importation

> *"It is quite obvious that the policies and procedures dealing with Private Stock Importation of Draught Beer have gone*

on for a number of years in a manner that did not completely comply to legislation.

"It should be noted, however, that these procedures were quite efficient.

"The Liquor Control Board of Ontario does agree with the Provincial Auditor's Report and the necessary procedures have been drafted to rectify this matter. These will be reviewed with appropriate officials."

Whitby Distribution Warehouse

"The planning and drafting of specifications for the new warehouse in Whitby commenced in 1981 and the target date for it to become operational was July, 1984.

"This is a very complex material handling system and the contractors have had difficulties in meeting requirements as specified by the Liquor Control Board. This made it necessary for the contractors to make the required modifications in order to fulfill the contract.

"Because of the delay and failure to pass the required tests, it became impossible for this facility to service our stores and customers.

"In order to ensure that stores received products and also, to ensure that there was not a substantial loss of revenue to this Province, the necessary arrangements to extend the contracts at the existing facilities were made."

Sale of American Beer

"Although we agree with the comments on the sale of American beer to the Ontario Hotel and Motel Association Members, it should be noted that, during the beer lock-out, many licenced liquor establishments were very concerned about loss of revenue and the possibility of being put out of business. The Liquor Control Board normally sold approximately two to three thousand cases of American beer a week. Consequently, emergency systems had to be set up overnight to handle volumes that reached 140,000 to 150,000 cases daily, the majority of which were for licenced establishments. This unprecedented demand was greater than we ever handled and led to the relaxation of our normal rules and procedures.

"However, a detailed audit is being currently conducted of

the records of the Ontario Hotel and Motel Association to ensure, to the best of our ability, that all monies due to the Liquor Control Board are accounted for.

"Contingency procedures will be developed to properly deal with future occurrences of a similar nature."

4.6 Opportunities for Increased Economy in Election Administration, Office of the Assembly

The expenditure of the Office of the Assembly, including the Chief Election Office, was $36.5 million for the year ended March 31, 1985.

The current year's audit was extended beyond March 31, 1985 to include the May 2, 1985 election expenditures. **Although we were generally satisfied with the accounting records and systems of internal control, we felt that there were opportunities for increased economy in election administration.**

- **The prices paid for reproduction of electoral lists were excessive. We estimated that the total cost of $1,597,000 could have been reduced by more than $1 million.**
- **The practice of mailing a Notice of Enumeration card to every elector was costly ($3.1 million) and the benefits derived needed to be examined.**
- **We estimated that the total cost of $1,067,000 for printing Notice of Enumeration cards could have been reduced by half had a more reasonable printing price been paid.**

COST OF REPRODUCING LISTS OF ELECTORS

Total costs of reproducing electoral lists for the May 2, 1985 election were $1,597,000 for 100 copies each of 59,037 original pages, or an average cost of $27 per page. Our review indicated that these costs could have been significantly reduced.

Once an election or by-election is called, the affected electoral districts are enumerated and the enumerators prepare a list of electors. Under the Election Act the returning officer for the district is then required to reproduce and distribute up to 100 copies of the list of electors as soon as possible. Distribution to be as follows:

—one list is posted in a conspicuous place in the polling divisions of urban areas;

—one list is retained in the returning office;

—one list is provided to each candidate in the electoral district; and

—up to twelve copies are provided to each constituency association or candidate in the electoral district.

Where a returning officer determines that he does not need 100 copies of the electoral lists, he may arrange to produce only the number of lists required in his district. The returning officers arrange for the reproduction of their lists, approve the suppliers' invoices and forward them to the Chief Election Office (CEO) in Toronto for payment.

The maximum expenditure allowed for reproducing up to 100 copies of an original page of an electoral list is prescribed by Regulations to the Election Act and varies with the method of reproduction as follows:

—reproduction by a printing method such as photo-offset, up to $31;

—reproduction by a machine copier outside the returning office, up to $21; and

—reproduction by a machine copier at the returning office, up to $15.

For comparison, the maximum allowable cost for reproducing electoral lists for federal elections has been set at slightly less than $21 per page for 100 copies reproduced by photo-offset.

The reproduction method used in a particular electoral district is at the discretion of the district's returning officer. However, a memorandum from the CEO dated November 20, 1984 discouraged returning officers from reproducing electoral lists by means of photocopying within their returning offices.

For the May 2, 1985 election, 38 of the 125 electoral districts paid the maximum $31 per original page reproduced 100 times, 55 paid the maximum $21 per page and the remainder paid close to the maximum allowable for the particular method of reproduction chosen. However, one district paid only $4.17 per original page to one of the printers used.

We examined lists of electors for 45 of the 125 electoral districts and found that electoral lists reproduced by either print or photocopy methods were of equally acceptable quality.

We requested the Ministry of Government Services (MGS) Print Procurement Services Branch to obtain a quote from an outside printer for reproducing up to 100 electoral lists for an average district and meeting the specifications for the lists as laid out in the Regulations to the Act. The estimate obtained was about $4 per original page. **Even assuming a higher actual price, say $10 per page for rush orders, the savings realized would have been in excess of $1,000,000. Although permitted by Regulation to the Election Act, the prices paid for electoral list reproduction for the May 1985 election were excessive.**

We recommended that the CEO review its policy for reproducing electoral lists to ensure that such services are obtained in the most economical manner.

COSTS AND ADMINISTRATIVE EFFORT OF MAILING NOTICE OF ENUMERATION CARDS

Effective December 1984, the Election Act requires that every enumerated elector be mailed a Notice of Enumeration card by the district returning officers. **This requirement was complied with for the first time in the May 2, 1985 general election at a total cost exceeding $3.1 million.**

The purpose of the Notice of Enumeration is:

- To confirm and remind an elector that he or she has been enumerated and thus is eligible to vote in the election; and
- To inform the elector of the location of the poll at which he or she is to vote.

As of June 5, 1985, the breakdown of the total accumulated costs, relating to the mailing of Notice of Enumeration cards to the 5.77 million electors enumerated, for the May 2, 1985 election was as follows:

	$
Design and printing of original cards and labels	41,000
Printing of cards in districts	1,067,000
Postage	1,500,000
Returning Officers fee (9¢ per card addressed and sent)	516,000
Miscellaneous	27,000
	3,151,000

The Notice of Enumeration card appears to duplicate information already communicated to electors through a number of other means:

- The Record of Enumeration (Form 301), which is completed by the enumerators at the time of enumeration, indicates the name and address of the person enumerated and in most cases the location of the poll at which he or she is to vote. A copy of this form is left with the elector as evidence of enumeration, with instructions to bring it to the poll on election day;
- Lists of electors are posted publicly in urban areas; and
- Local advertisements and literature are provided by candidates.

To ensure that the Notice of Enumeration cards were received by electors prior to the first advance poll, all returning officers were instructed to mail these cards by April 19, 1985 at the latest. However;

—At least 850,000 or approximately 15 per cent of all cards were not mailed by that date. In one riding, over 75,000 cards were not mailed until April 30, and in another riding over 21,000 cards were mailed on May 1.

—At least 3,900 electors did not receive a Notice of Enumeration card because addresses were incomplete, incorrect or indecipherable.

—At least 500 cards were mailed but were returned as undeliverable because no address labels were attached to the cards.

Therefore many electors did not receive a Notice of Enumeration card prior to the election.

Voter turnout in the last 15 Ontario general elections dating back to 1934 has averaged between 58 per cent and 74.1 per cent. Voter turnout in the May 2, 1985 election was 61.5 per cent. Although a number of factors affect voter turnout, the mailing of Notice of Enumeration cards did not appear to have significantly influenced voter participation in the May 2, 1985 election.

As of July 5, 1985, nine returning officers had responded to a survey conducted by the CEO. Seven expressed concern over the necessity and usefulness of mailing Notice of Enumeration cards.

We concluded that the practice of mailing a Notice of Enumeration card to every elector was costly and that the benefits derived needed to be examined.

COST OF PRINTING CARDS

The design and specifications for Notice of Enumeration cards were established by the CEO. These specifications were then given to district returning officers who arranged for local printing and distribution. Suppliers' invoices for printing Notice of Enumeration cards were approved by district returning officers and sent to the CEO for payment.

The maximum price to be paid by district returning officers for the printing of Notice of Enumeration cards is not defined in the Regulations to the Election Act. The price was therefore established by the CEO at 15.9¢ per card for the May 2, 1985 general election.

We reviewed the costs of printing these cards for all 125 electoral districts and found that a majority (92 per cent) of the districts paid the established price of 15.9¢ per card. However, ten electoral districts paid significantly less, with prices ranging from 2.17¢ to 12¢ per card and averaging 6¢ per card.

As a result, we requested the Ministry of Government Services, Print Procurement Services, to estimate the cost of reproducing Notice of Enumeration cards for an average size riding in accordance with the CEO specifications. They estimated the cost to be approximately 3.3¢ per card, with the cost doubled for a rush order.

Total costs for printing Notice of Enumeration cards for the May 2, 1985 election were $1,067,000 or approximately 18¢ per card, including federal and provincial taxes. If a more reasonable price had been paid, say 9¢ per card (including taxes), total savings would have exceeded $500,000.

If the practice of mailing Notice of Enumeration cards was to be continued, we recommended that the CEO establish a more economical price for the reproduction of these cards.

The Chief Election Officer responded to our report in a letter to the Speaker of the Legislative Assembly. This response, forwarded to us on September 24, 1985 by the Speaker, included the following:

General

> *"Some emphasis in the Auditor's Report was directed at printing costs associated with voters' lists and enumeration cards required as part of the election procedures set out in the Election Act. While the Auditor has raised the level of cost in these areas, we would note that overall payments were made at less than the limits set out in regulations under the Election Act.*
>
> *"The intent of this letter is to set out an 'operations' perspective which we feel is necessary to adequately assess the approach taken to meeting printing needs within the very tight time requirements that exist during an election. Simply stated — there is very little margin for mistakes in undertaking the conduct and administration of an election once the Writs have been issued. Within the 37-day period that is allotted, all of the necessary tasks must be completed. Delays or postponements are not part of the process and are not acceptable."*

Costs of Reproducing Lists of Electors

> *"While efforts to continually improve efficiency and develop cost-effective procedures are essential in the conduct of government affairs, we are concerned that the magnitude of the printing efficiencies and savings suggested, do not take into account all relevant factors. As well, we do not feel that they have been considered as part of the total requirements that must be met after the election is called and in relation to the environment within which the election is conducted. It is important to note that in reality there is not one election but, in fact, 125 individual elections — one within each of the electoral districts in the province. Those elections, while conducted under the*

overall supervision of the Chief Election Officer, are conducted on an individual basis by each of the Returning Officers responsible. Their task is enormous.

"Returning Officers conduct elections within regulations and guidelines provided by the Ontario Election Office. These guidelines include maximum costs (as set out in the body of this report) to be paid for the reproduction of lists of electors. . .

"The first point of emphasis is that under the present staffing in the Returning Office at the time of an election, there is not provision made within staff resources for the preparation and handling of significant volumes of printed material. This would include the electors lists.

"The policy within the Ontario Election Office is that printing, including the electors lists, ballots, etc., is to be placed with a capable, responsible printer that can demonstrate the ability to meet both quality and time deadlines. If some, or all, of this responsibility were placed within the Office of the Returning Officer, it is our view that additional staffing would be required to meet election obligations. Therefore, while a cost saving might be possible in actual printing costs, there would be an offset necessary in personnel costs.

"We believe this policy of utilizing qualified and dependable outside printing assistance, chosen by each Returning Officer, is the most realistic approach to be used within the election period. The Auditor has, for example, cited one riding where only $4.17 per original page was paid to one of the printers used. In fact, this amount represented only a portion of the work involved with a price of $31.00 per page being paid for the remainder to ensure all printing requirements were completed on time.

"It is our view, based on the very substantial experience of Election Office staff, that the election process must be approached and viewed as a whole that encompasses both the financial and operational management point of view. With this requirement in mind, I have advised Returning Officers that they are not encouraged to consider copying the list of electors. The reasons cited include:

1. *they should be devoting all of their energy and efforts to the proper administration of the election;*

2. *withdrawing the printing of the list from experienced printers may cause difficulties in the ordering of proclamations, Notices, Ballots and sundry printing needs which are also essential elements in the election process;*

3. *the Election Act in Section 18(3) states that the Returning Officer shall cause the lists to be* printed;

4. *the Schedule of Fees states that the List of Electors must include up to 25 complete sets, trimmed and bound with cardboard covers.*

"It is noted that the printing of the list of electors forms only part of the overall printing needs of the Returning Officer in each Electoral District. That printing must be completed quickly and according to specifications. It must be done correctly and within deadlines that are unusually short. As a result, reliability of the supplier must be a fundamental part of the choice of printer. As well, ability to handle the volume of printing required for all aspects of the process — not just the list of electors — is a key consideration.

"The basis for the schedule of costs for the printing of lists comes from a concern that the systematic calling of tenders for all printing raises conflicting pressure on present staff.

"There is not always time for present staff within the office of each of the Returning Officers to complete this task. How many printers should be involved in the tender and who takes the time to talk with those who call because they were not included? The schedule is provided to offset these circumstances and ensure an appropriate balance is struck between time pressures and lowest cost.

"We would also note the general approach to quoting in the printing industry and the position of Returning Officers find themselves in once an election is called. Our experience is that if you have enough time and can look in enough places, you can generally find someone to print what you want for the price you want to pay. That does not mean, however, that the task will be completed when you want it and to the specifications that you would like.

"Our general experience has been that when a printing task is undertaken for an amount that is clearly lower than comparative competitors, something very often does not get 'delivered' — it may be the deadlines, it may be the quality

or it may be the completion of the necessary steps to ensure the work meets all the specifications. It is our view that in the conduct of an election, there cannot be any shortfalls in any of these areas. As a result, a fair price is set to pay for work that meets the needs of the Returning Officers. The guidelines set are maximums. Wherever possible, within the circumstances that exist within their constituencies, the Returning Officers will seek and obtain a lower price.

"It is noted, for example, by the Provincial Auditor that for comparison, the maximum allowable cost for reproducing electors lists for federal elections has been set at slightly less than $21 per page for 100 copies produced by photo offset. We would also note that the cost to the Federal Election Office for reproducing the electors lists for the province of Ontario at the last election in September, 1984 was thousands of dollars higher than the cost of reproducing the electors list for the Ontario provincial election held in May, 1985."

Costs and Administrative Effort of Mailing/Cost of Printing, Notice of Enumeration Cards

"The election of May, 1985 was the first occasion on which the Notice of Enumeration cards was used. The provisions for the use of the cards were part of the new Elections Act which came into effect with this election.

"The question of whether or not the cards will be used is, in fact, a policy area for decision by the Legislature. It was agreed by all parties that the cards should become a part of the election process in Ontario. We do not regard the question of changing the use of the cards as an area for decision by the Ontario Election Office.

"From the point of view of cost for the cards, our comments regarding cost versus time conditions that relate to the list of electors also applies in general terms to the printing of the cards. A cost schedule for the cards was set based on the Government of Canada Tariff of fees, January, 1984 with a 10% cost increase for the 18-month period between then and the Ontario election. Because this was the first time the cards were introduced, there may indeed be alternate ways to reduce the cost involved in their preparation and distribution. However, we believe the basic question of their continued use needs to be addressed at the same time as we examine how best to ensure they are produced and

distributed at a cost that is as reasonable as possible under election conditions."

Conclusion

"In closing, we would emphasize our concerns that both the list of electors and the enumeration cards cannot be viewed as a process that is driven only by question of printing cost. Nor can they adequately be assessed by a comparison with cost quotes outside the reality of an election period. During an election on an electoral district by electoral district basis a great many printing needs are being met as part of the election process — not just those of the Returning Officers. We remain concerned that the question of 'cost' has not been looked at comprehensively within the overall framework in which it was incurred and with the due consideration to the balance between cost and need.

"In raising this issue, we do not do so to challenge the need for this office to be as efficient as possible in our operations — because there is a need to be as efficient and effective as possible. In this light, we will continue to examine on an ongoing basis how best costs can be related to needs to ensure that funds are expended to obtain maximum value. As recommended by the Provincial Auditor, we will establish a Task Force to review the policy for reproducing electors' lists to ensure such services are obtained in the most economical manner."

4.7 Rationale Questioned re Creation of New Charitable Foundation by The Ontario Cancer Institute

The objective of the Institute, a corporation without share capital, is to maintain, manage and operate a provincial hospital with facilities for cancer research, diagnosis and treatment. As at March 31, 1985 the Institute's assets totalled $34.3 million, with corresponding liabilities of $6.2 million and a fund balance of $28.1 million. Revenue for the year (including grants of $39.6 million from the Province) was $54.1 million, and expenditures totalled $55.8 million. The Institute's audit is performed under our direction by a public accounting firm.

By resolution of the Institute's Board and approval of the then Deputy Minister of Health, the balance in the Institute's Endowment and Special Purposes Fund ($11.4 million) was transferred to a newly created charitable foundation, the P.M.H. Trust, on June 30, 1983. The audit of this foundation is neither performed under our direction nor is subject to

our review. **Based on the following observations, we questioned the rationale for creating the Trust:**

- The functions of the P.M.H. Trust appeared to be the same as those of the Endowment and Special Purposes Fund previously operated by the Institute.
- P.M.H. Trust had a Board consisting of three members who were also board members of the Institute.
- The accounting records of P.M.H. Trust were essentially maintained by the Institute, similar to the arrangement when the Endowment and Special Purposes Fund was administered by the Institute.
- The auditor of the Institute was also the appointed auditor of the P.M.H. Trust.

The Chairman of the Institute, on March 12, 1985, commented as follows:

> *"The P.M.H. Trust was established after consultation with . . . the then Deputy Minister of Health who, at my request, wrote to . . . the Assistant Deputy Minister, Legislation Branch, Revenue Canada, in support of the establishment of the tax-exempt status of the Trust. . . .*
>
> *"The P.M.H. Trust receives and maintains funds to be used for the benefit of The Ontario Cancer Institute incorporating The Princess Margaret Hospital. The Trust was established as a separate charitable organization to ensure that the conditions associated with donors' gifts are always satisfied.*
>
> *"The members of the Board of P.M.H. Trust each sit on a number of other boards, including the Board of the Institute. In their role as Directors of P.M.H. Trust, they are able to focus their attentions exclusively on the Trust's funds and its various investments, thereby ensuring that both are managed most effectively. It is my intention to enlarge the Board of the P.M.H. Trust by the inclusion of interested and qualified individuals who are prepared to support and further the Trust and its objectives.*
>
> *"As noted, P.M.H. Trust funds are to be used for the benefit of The Ontario Cancer Institute, the programs of which are many and diverse. The independence of P.M.H. Trust ensures that the applications for funding from*

members of the Institute's medical and scientific staff, who have widely varying interests, are reviewed equitably and with undivided attention.''

4.8 Observations re Investment Management and Financial Systems Control, The Ontario Cancer Treatment and Research Foundation

The objective of the Foundation, a corporation without share capital, is to establish and conduct a program of research, diagnosis and treatment in cancer, including the recording and compilation of case data, the education of the public and provision of training facilities.

As at March 31, 1985 the Foundation's assets totalled $47.3 million, with corresponding liabilities of $5.2 million and fund equities of $42.1 million. Revenue of the Foundation's Capital and Endowment Fund for the year (including grants of $40.9 million from the Province) was $44.7 million, and expenditure totalled $44.6 million.

Resulting from our current year's audit, the following matters were included in our report to the Foundation:

- **The sale of $3.3 million of debentures, which resulted in a loss of $368,000, was not supported by evidence of potential overall gain from the sale and reinvestment of the proceeds.**
- **A computerized Patient Care Management System under development by the Foundation since 1983 to provide better billing systems at the clinics had not been implemented.**

INVESTMENT PORTFOLIO

The investments of the Foundation had a book value of $28.7 million as at March 31, 1985. We understood that a major portion of these investments would be liquidated during the next three to five years to provide funds for the construction of new clinics or major expansion of established clinics. Details of the 1985 year end investment portfolio are shown in the following table:

	Book Value ($ millions)	Market Value ($ millions)
Short term	8.4	8.4
Bonds	11.8	12.2
Stocks	8.3	10.1
Mortgages	.2	.2
	28.7	30.9

Since January 1, 1984 the investment portfolio had been managed by a Trust Company.

During the year ended March 31, 1985 the Trust Company sold $7.9 million of bonds and debentures, and incurred a loss of $644,000. **Management informed us that the Trust Company's basic philosophy is to sell investments at a loss if there is a greater potential for gains by the purchase of other investments. We reviewed the sale of 11¾ per cent Municipality of Metropolitan Toronto Sinking Fund Debentures, maturing in 1993 with a book value of $3.3 million, which resulted in a loss of $368,000. No documentation was available to indicate potential gains which would justify the loss incurred on this transaction.**

To retain effective control over its investment portfolio we recommended that the Foundation obtain documentation from the Trust Company explaining the rationale for the disposition of investments where significant losses on disposal were anticipated.

PATIENTS' BILLINGS — LONDON CLINIC

Billings were prepared from patients' medical record forms forwarded to the Clinic's business office. Billing procedures did not ensure that all treatments rendered by the Clinic were billed since:

- there was no assurance that the business office received all medical record forms for treatments; and
- many of the medical record forms received were not properly completed to enable a billing to be raised by the business office.

We noted that there were approximately 3,000 medical record forms on hand in the business office at March 7, 1985. The majority of these forms were for services rendered in 1984, but because of incomplete information on the forms billings had not been made to OHIP. Normally OHIP will not accept billings which are more than six months old. Consequently, revenue due to the Clinic for these services may not be realized. A conservative estimate of unbilled services, using the minimum OHIP fee ($16.50) for partial assessment, was calculated at approximately $50,000.

Pending the implementation of a computerized Patient Care Management System, we recommended that the business office take appropriate action to ensure that billings would be made for all chargeable services.

In their response management acknowledged that significant billings were being missed: Patients' billings were currently under review across the Foundation, and until the review of the situation was completed, the Clinic's Director would be working on stopgap measures to maximize billings.

Inadequate control over patients' billings at other clinics had been referred to in previous audit reports. Management had responded that a computerized Patient Care Management System was being developed to correct the problem. However, this system had not been implemented at the time of our audit.

The foregoing comments were reviewed in draft form with officials of the Foundation. However, since no formal report had been issued as at September 30, 1985, we are unable to present the Foundation's views on the subject matter.

4.9 Improvements Needed re Policies and Procedures, Province of Ontario Council for the Arts

The principal function of the Council is to provide grants, scholarships or loans to organizations and persons for study or research in the arts. Another function is to present awards to Ontarians for their outstanding accomplishments in the arts.

As at March 31, 1985 the Council's assets totalled $3.6 million, with corresponding liabilities and equity. Income of the Council for the year (including grants of $21.4 million from the Province) was $21.7 million, and expenditure totalled $21.3 million.

During the current year's audit we observed;

- **extensive reimbursement of admission tickets to events attended by Council members, Discipline Officers and other staff;**
- **absence of established guidelines and procedures for selection, monitoring and performance assessments of consultants.**

REIMBURSEMENT OF ADMISSION TICKETS

External advisors are paid by the Council to provide artistic assessments and recommendations concerning organizations requesting financial assistance. Generally, this advice is relied on when deciding whether to fund the organizations. Discipline Officers process applications received for financial assistance from various art disciplines such as Music, Theatre and Dance.

To enable Council members and staff to become familiar with the quality of events presented by these organizations, the costs of admission tickets for those events attended are reimbursed. For the fiscal year ended March 31, 1985, reimbursements of admission tickets totalled $22,900.

The following observations were made during our review:

- **There was no limit on the number of events which Council members and Discipline Officers could attend.**

- **There was no restriction on Discipline Officers attending events in other disciplines not under their responsibilities.**
- **Except for a limit of two tickets in each fiscal year for attendance at the five major arts organizations, there was no limit on the number of events which senior officers and support staff could attend.**
- Reimbursements claimed during the year were as follows:
  - —$9,100, ranging from $80 to $2,000 per member, for the 12 Council members;
  - —$3,700, ranging from $40 to $1,000 per officer, for 12 of the 14 Discipline Officers;
  - —$5,100, ranging from $36 to $3,500 per officer, for the 6 senior officers; and
  - —$5,000, ranging from $9 to $1,000 per support staff, for the 27 employees on staff during the year.

Since artistic assessments affecting funding decisions are primarily based on the advice of paid professionals, **we felt that the reimbursement policy for admission tickets detracted from the economy of the Council's operations.** We therefore recommended that a limit be placed on the total number of events which the Council would reimburse.

CONSULTANTS

We examined contracts awarded to three consultants who provided services to the Council in the areas of personnel, administration and finance.

For the 1985 fiscal year, payments made to these consultants under a number of small contracts were $27,000, $20,000 and $8,000 respectively. **Our review indicated that the Council had not established guidelines and procedures for the use, selection, monitoring and performance assessments of consultants.** For example, instead of giving several small contracts to each consultant, the contracts could have been consolidated and awarded by using competitive selection procedures.

We recommended that the Council adopt appropriate procedures for the acquisition of consulting services, using the Ontario Manual of Administration as a guide.

The following comments were included in the Council's reply dated October 9, 1985:

Reimbursement of Admission Tickets

> *"It has always been Council's policy to reimburse Council Members and staff for purchase of admission tickets to*

events staged by client organizations. This policy was adopted in recognition of the fact that it was vital to OAC's credibility and effective operation that Council Members and professional staff be thoroughly familiar with the nature, extent and quality of the arts in Ontario. Both Council and staff members perform more efficiently when they are informed in the field they serve. A thorough appreciation of all the arts is particularly important in the professional staff, who participate in the 'dry run' process, in which all applications are discussed before presentation to Council. It is also highly desirable for support staff to be familiar with the work of clients with whom they must deal on direct, professional basis. Additionally, it is a basic tenet of the Council that artistic exposure is an element in continuing education, contributing to personal growth and development.

"When Council members and staff are in attendance at client events, they are recognized as being 'on duty', representing the interests of OAC and not in attendance for recreation. It is preferable that Council and staff members be in a position to pay for their admission to these events, rather than accepting complimentary tickets which might appear to compromise their impartial position.

"The funds involved, of course, go directly into the revenue of the arts organizations which OAC is set up to support. The amount is not regarded as being disproportionate — in 1984/85 just $22,956 in total, less than 1% of OAC's administrative costs and less than 0.1% of total budget. Since OAC assists some 1,000 organizations, and assuming a conservative average ticket price of $10 per performance, the total amount expended could be regarded as the equivalent of one pair of tickets for each organization supported.

"For all these reasons, Council finds itself in disagreement with this recommendation."

Consultants

"Council agrees there is a need to develop clear guidelines for the use, selection, monitoring and performance assessment of consultants and will undertake to do so this year, using the Ontario Manual of Administration as a guide."

4.10 Inadequate Accounting Records and Controls, The Ontario Heritage Foundation

The objectives of the Foundation, a corporation without share capital, include the acquisition of property in trust for the people of Ontario and the preservation of property of historical interest.

As at March 31, 1985 the Foundation's assets totalled $33.8 million, with corresponding liabilities of $.4 million and fund equities of $33.4 million. Revenue for the year (including grants of $2.6 million from the Province) was $4.7 million, and expenditure totalled $3.7 million.

Our 1984 audit report to the Foundation, which was issued subsequent to the printing deadline for our 1984 annual Report, highlighted the following matters:

- **A comprehensive review of the Foundation's accounting records and procedures was needed.**
- **Controls over articles of a cultural nature owned by the Foundation were poor.**

At the completion of our 1985 audit, it was apparent that our concerns had not been fully addressed.

ACCOUNTING RECORDS AND PROCEDURES

In August 1984 the Foundation hired a person to fill the newly created position of accountant/financial analyst. This person was to be responsible for providing professional level accounting and financial reporting services including the implementation of improved internal control over assets, revenues and expenditures together with documented accounting procedures.

We recommended that the accountant/financial analyst, with cooperation of senior officers of the Foundation, undertake a comprehensive review of the Foundation's accounting records and procedures.

The Chairman of the Foundation replied as follows on May 30, 1985:

> *"The review which was underway before the audit was begun, pointed out the need for the computerization of the OHF's records. Substantial progress has been made and the revision of the accounting ledger to support a more concise general ledger will be achieved by the end of the fiscal year.*
>
> *"In addition, the budgeting process has been altered since*

the last Audit. The establishment of a Strategic Planning process, which uses the Ministry's Culture Division priorities as the basis for approaching the budget allocation and the newly-established Finance Committee which presents it to the Board of Directors, ensures an approved approach to budget preparation. This process is now in effect and will form the basis of the Board's 86-87 budget presentation.

"The Foundation's Vice-Chairman, who serves as the Finance Committee Chairperson and Audit Committee member, has been asked to undertake a review of the personnel qualifications and requirements of the accounting function.

"An Audit Committee has been established and will meet at least twice annually. The committee will consist of members appointed by the Board, none of whom will be officers or employees of the Foundation. . . .

"An accounting manual will be prepared by the end of this fiscal year and will cover procedures for handling transactions, accounting policies and budget procedures etc."

At the completion of our current year's audit in August 1985, it was apparent that our concerns had not been fully addressed. In this regard:

- We noted a serious deterioration in the condition of the Foundation's accounting records.
- The Foundation was unable to properly close its books of account for the year ended March 31, 1985. Closing procedures were neither properly planned nor effectively communicated to the appropriate staff members, thus causing an increase in our audit time.
- Computerization of the Foundation's records was underway, an Audit Committee was established in early 1985, and the hiring of a Supervisor, Financial Planning and Management was planned.

ARTICLES OF A CULTURAL NATURE

Articles of a cultural nature totalled approximately $9 million as at March 31, 1984. For the most part these articles were on loan for display at art galleries, museums and similar organizations in Ontario. In accordance with the loan agreement it is the responsibility of the custodian to provide

insurance coverage, security, and physical control by unique identification of each article on loan from the Foundation.

The Foundation maintained details of loaned articles in files by donor names. However, these files did not identify each article separately by location. Consequently, these files could not be reconciled to the total value of articles indicated in the Foundation's general ledger or to the total number of articles in the hands of each custodian.

To ensure adequate control over these articles we recommended:

—the Foundation set up a perpetual inventory record of articles owned by the Foundation indicating the location, description, value and donor's name;

—periodic physical inspection of articles to verify articles are on display with the custodian and in good condition;

—proof of continuing insurance coverage of articles be provided to the Foundation annually by the custodian.

The Chairman replied as follows:

"The Foundation has acquired the part-time services of a Registrar and has appointed a committee to assist her in the preparation of a perpetual inventory which will detail location, description, value and donor's name of the OHF owned articles.

"Periodic physical inspection of articles on display with a custodian will be started during the second half of the fiscal year.

"The Foundation at present, demands proof of insurance from custodians but has found that institutions need to be constantly requested to supply this proof. The Foundation's present staff situation makes it very difficult to do this follow-up. It plans, however, to make selective follow-up beginning September, 1985."

At the time of our 1985 audit, no satisfactory progress had been made. As inventory records remained inadequate, we had difficulty in establishing the location and custodianship of the articles on loan to various organizations.

The foregoing matters were reviewed in draft form with officials of the Foundation. However, no formal report had been issued as at September 30, 1985. Therefore, we are unable to present the Foundation's views on the matters raised.

4.11 Lack of Tendering, Contracts and Cost Analysis re Purchase of Security Services, Ontario Housing Corporation

The Corporation was established, without share capital, in 1964 under the Ontario Housing Corporation Act. It is empowered to carry out any housing projects, including the planning, construction and management of projects undertaken, and to acquire and dispose of land in its own name. The Corporation's audited financial statements for the year ended December 31, 1984 are reproduced in Volume 2 of the 1984-85 Public Accounts.

Our current year's audit report to the Corporation included the following concerns:

- **A company was paid over $7.5 million for security services provided during an 8-1/2 year period without the benefit of competitive selection procedures or written contract.**
- **Another company, created in 1970 to provide security services exclusively to the Corporation, was retained under four consecutive five-year contracts, none of which was publicly tendered.**
- **Costs associated with security incidents were not analysed to determine whether overall security services were adequate.**

DETAILED COMMENTARY

In order to maintain a secure environment for tenants in over 1,000 housing projects managed by them, Local Housing Authorities (LHAs) generally provide general services internally through their building custodians and/or security tenants. However, at the Metropolitan Toronto Housing Authority (MTHA), which controls approximately 130 of the 1,000 housing projects, security has been provided by two private security companies (A and B) since 1960 and 1970 respectively. The activities of these two security companies are monitored by the MTHA.

During 1984 the cost of the services provided by these two companies totalled approximately $4.9 million. Company A was paid $0.6 million and Company B $4.3 million.

Our review revealed the following:

- **There was no written contract between the Corporation and Company A specifying the terms of reference, services to be provided and cost of such services.**

  The last contract with Company A expired in September 1976. The Corporation, however, continued to retain the services of Company A for several of its MTHA projects even though Company B was retained

in 1970 to provide similar services exclusively at MTHA projects. Further, **we found no evidence of competitive tendering and documentation to justify the retention of Company A.**

The total cost of services provided by Company A from September 1976 to May 1985 exceeded $7.5 million.

Management indicated that a new contract would be in place by August 1, 1985 through an invitational tender process.

- **Company B was created by its principals in 1970 under the Business Corporations Act with the knowledge that it would provide security services exclusively to the Corporation at the MTHA projects.**

At the beginning of each year, the Company is required to submit a budget to the Corporation for approval, detailing the estimated expenditures necessary to carry out the Company's operations. All such expenditures incurred are fully reimbursed by the Corporation plus an annual management fee. We were advised that such fee, which under the terms of the latest contract has been set at $240,000 per annum, covers the salary of the President of the Company, taxation, corporate legal fees, directors' fees and expenses, and an amount for retained earnings to fund other liabilities not covered in the contract.

The Corporation entered into three consecutive five-year contracts with this Company covering the period from August 1, 1970 to July 31, 1985. On July 17, 1985, the Corporation again renewed its contract for a further five year period effective August 1, 1985. We noted that the services provided by Company B have never been publicly tendered as required by the OHC Field Manual 1.

We found no evidence that the Corporation had made any efforts to find alternative sources of supply. Therefore, we questioned the Corporation's decision not to follow the public tendering process.

- The Corporation summarizes all incident reports received from LHAs including MTHA. The summaries, published on a quarterly basis, categorize the number of security occurrences by type (criminal and non-criminal). These are submitted to the Corporation's board of directors for review. **However, costs associated with each type of occurrence either by project, housing authority or region have not been kept.**

As a result, **in our opinion, the Corporation was not in a position to determine whether additional security services, were required at LHAs in other municipalities and whether such services would contribute to reducing costs associated with vandalism, break-ins, etc . .**

Management indicated that it has attempted to maintain a middle ground in providing a level of security services that is adequate and not too costly.

On September 4, 1985, the Chairman of the Board replied as follows:

"The concerns that you have expressed over the security services provided at the Metropolitan Toronto Housing Authority are well appreciated, and have been under review by the Ontario Housing Corporation Board of Directors for several years. You will appreciate that the Municipality of Metropolitan Toronto has a number of unique characteristics in its public housing program, especially that segment for which OHC is responsible. Security services have been administered over the past fifteen years principally through one company that provides maximum flexibility to the Corporation, and its Housing Authority, in the quality and extent of security services provided. For the time being, the Corporation's Board has decided to continue the exclusive service contract.

"An invitational tender was carried out in the Spring of 1985 for a portion of Metro. In general, the results of the public tender were unsatisfactory. The Corporation's Board has recently decided to once again address the issue of the exclusivity of the Metro security contract, and will be taking the issue up with the Management Board of the Ontario Cabinet. Your comment with respect to additional security services at Housing Authorities in other Ontario municipalities is noted. At this stage, there is no apparent need for procedural changes and the Corporation will continue to maintain the middle ground level of security to which you refer."

4.12 Distributorship and Management Compensation Matters, Ontario Lottery Corporation

The Corporation was established to develop, undertake, organize, conduct and manage lottery schemes. The Corporation's audited financial statements for the year ended March 31, 1985 are reproduced in Volume 2 of the 1984-85 Public Accounts.

Our current year's audit report for the Corporation highlighted the following matters:

- **Applications on file were reviewed but no advertising was done for a distributorship opening awarded to an employee.**

- **Management compensation increases exceeded the government guidelines of 5 per cent.**

EMPLOYEE APPOINTED AS DISTRIBUTOR

Overview

Across the Province the Corporation employs 47 distributors who, as independent businessmen and women, supply lottery tickets to retail outlets in Ontario. Distributors receive commissions on the tickets sold, handling fees for reimbursing winning tickets redeemed by retailers, and a service fee for terminals in their territory. In the 1985 fiscal year the average net income, without deducting any salaries paid to family members, was $64,000 with several distributors having net income in excess of $100,000. The net income represents gross commissions and fees less payments by the distributor for all overhead selling costs, including salaries for sales and office staff, rent, interest, insurance and other business costs.

We understand that the Corporation has recently been addressing the issue of distributor income and has taken several initiatives such as reassigning territories and revising distributor contracts.

Procedure for Appointment

The Corporation's procedure for appointing a distributor is as follows:

- Any resident of Ontario who wishes to become a distributor can submit an application to the Corporation.
- The Vice President, Sales and Distribution, and his staff review all applications received in the past two years for a particular territory.
- Applications with the proper qualifications and meeting certain criteria (e.g. financial background, ability to deal with people) are selected for review by the President.
- Approximately 5 to 10 applicants are interviewed by a Board Subcommittee which results in one applicant being recommended to the Board of Directors for approval.

Distributorship Awarded to Employee

In our previous year's report we noted that the Corporation had not advertised since 1978 for interested distributorship applicants when openings arose and suggested that the Corporation reconsider their policy in this area.

During the 1985 fiscal year we noted that one distributorship which became available was awarded by the Board of Directors to an employee of the Corporation.

In this instance the 40 applications which were on file were reviewed and 6 of the applicants were interviewed. However, the Corporation did not advertise that this distributorship was open.

In our opinion, employees could be perceived as enjoying an unfair advantage in applying for distributorship openings. However, we understood that both the Board and the Minister had approved the practice of accepting applications from employees to ensure the selection of the best available candidate.

We were advised that the Corporation anticipated advertising for future distributorship openings and, in accordance with its policy, would continue to accept applications from interested employees.

NON-COMPLIANCE WITH INFLATION RESTRAINT PROGRAM

The Public Sector Prices and Compensation Review Act, effective October 1, 1983, required public organizations to report all compensation increases granted during the restraint period to the Inflation Restraint Board (IRB). As established by the Treasurer under the Act, **total compensation, including merit and cost of living revisions, was not to exceed 5 per cent.**

On October 31, 1984 **the Corporation requested IRB approval of a 7.44 per cent merit and cost of living increase for the Management Compensation Plan, and a 9.77 per cent increase for the Executive Compensation Plan.** The IRB informed the Corporation on October 31, 1984 that "if you are not advised to the contrary within fifteen working days from the date of this notice, you may implement the group compensation plan changes." On November 23, 1984 the Corporation informed the IRB that they were implementing the reported changes "as no notification has been received from you." The Corporation informed us that they were also in close contact with the Civil Service Commission and the IRB prior to formalizing their submission.

We acknowledge that the Corporation complied with the applicable filing requirements; however, we believe the Corporation was still in contravention of the Treasurer's criteria under the Act. Furthermore, in our review of government ministries and a number of the larger Crown agencies and corporations for compliance with the Treasurer's criteria, we noted that the Corporation was the only one in non-compliance.

The following response was received from the Chairman of the Board on October 15, 1985:

Employee Appointed as Distributor

> *"Until recently, it has been the policy of the OLC Board of Directors not to advertise for applicants to fill vacancies for distributorships. It has always been felt that we received an adequate number of applications without advertising. It was*

also felt that it showed an element of initiative when applicants applied for a distributorship without the prod of a newspaper advertisement. The Board of Directors have always looked to fill distributorships with individuals who possessed strong business interest, as well as initiative and enthusiasm.

"As you have noted, during 1984/85 a distributorship became vacant, and this distributorship was filled by an employee. The employee applied in the same manner that other candidates had applied. In view of the fact that the employee had spent 10 years working for the Corporation, and had on 7 occasions operated distributorships on behalf of the Corporation during periods of vacancy, it was felt that this employee was by far the best candidate. It has always been the aim of the Board of Directors to appoint the best qualified individuals as distributors, and we felt that this employee had the best background of any of the candidates interviewed.

"In future the Board will advertise in local newspapers when seeking candidates to fill a distributorship. We have been advised by the Minister that employees may apply for a distributorship as long as the opening is advertised."

Non-Compliance With Inflation Restraint Program

"On April 19, 1984, the Corporation received a copy of a memorandum addressed to all Deputy Ministers pointing out that the granting of increments to management and excluded employees could now be resumed. It was noted in the memo that the 'restrictions on the size of increments 2%-5% and, one per year, shall continue.' Because the OLC is on a step by step merit system, a check was made by our Personnel department with the Pay Policy branch of the Civil Service, to confirm that we could continue to award our step merits. We were given the approval to proceed in this regard.

"During August 1984, directions were received from the Civil Service covering cost of living awards for the management and executive groups being 4.31% and 4.23% respectively, effective April 1, 1984. In September, 1984, our Personnel Manager visited the Pay Policy branch in person to ensure that we were completing the Inflation Restraint Board reports correctly (for salaries and benefits).

"On October 31, 1984, we submitted the appropriate IRB forms which had been completed for approval by the AIB. These forms reflected a 4.31% cost of living and the appropriate merit increase for a total of 9.77% for the 8 employees in the executive group. They also reflected a 4.23% cost of living adjustment and the appropriate merit increases which together totalled 7.44% for the 51 employees in the management group.

"On October 31, 1984, the IRB acknowledged receipt of both submissions and gave approval to proceed with the increases if we were not advised to the contrary within 15 working days. By November 23, 1984, no communication had been received from the IRB and we notified them in writing that we were proceeding with the cost of living increases. The related increases were processed on December 13, 1984, at which time we still had not heard anything from the IRB. If we had been advised by the IRB that we were in contravention of the Act we would not have proceeded with the cost of living expenses.

"Pursuant to the Order-in-Council which established the OLC salary schedules, our salary ranges are to be adjusted to the same extent as the salary ranges of those corresponding classes within the Civil Service.

"The OLC was never notified or informed that we were the only agency that was in non-compliance, and that the IRB had formally written to the Treasurer regarding our adherence. I can assure you that if we had been appraised of these circumstances we would not have implemented any of these increases."

4.13 Poor Internal Control re Free Passes and Parking Revenue, Ontario Place Corporation

The Corporation's audited financial statements for the year ended March 31, 1985 are reproduced in Volume 2 of the 1984-85 Public Accounts. The Corporation's objects include the operation of Ontario Place as a provincial exhibit and recreational centre.

Our current year's audit report to the Corporation included the following:

- **Free passes issued by the Corporation admitted approximately 33,000 people to Ontario Place during the 1984 season.**

- **Internal controls were inadequate in the accounting for free passes**

and, in numerous cases, the reasons for issuing passes were not recorded.

- **There was no assurance that all parking fees were accounted for, since no action was taken to reconcile parking usage with free pass activity and revenue received.**

ISSUING OF FREE PASSES

The Corporation issues free VIP passes and one day complimentary passes. Additionally the Corporation has a reciprocal arrangement with a number of other attractions, such as Canada's Wonderland and the Ontario Science Centre, which allows employees of these attractions free admission to Ontario Place along with a guest.

There are various types of VIP passes. A lifetime pass admits the holder of the pass and accompanying party of up to eight people. These passes are issued with the approval of the Board to Board members and, upon separation, to employees who have made a significant contribution to the Corporation. As well, the Corporation issues seasons passes which admit either the holder and party (gold) or the holder and guest (silver). These passes are issued with the approval of the Chairman or the General Manager. All VIP passes include free parking.

The one day complimentary pass admits only the recipient to the park. The issuance of these passes is supported by a requisition form submitted by department managers and approved by the General Manager.

The Corporation's records indicated that approximately 33,000 people (1 per cent of total attendance) gained free entry during the 1984 season, including 19,000 VIP and reciprocal arrangement entrances and 14,000 one day complimentary passes.

During our review of these free passes we noted that:

- **The Corporation had no accurate record of how many lifetime passes were issued.** For example, 13 of 150 passes could not be accounted for.

- All Ontario Place permanent employees received a gold season pass and, as well, 19 spouses of senior managers and Board members had gold season passes. Also, 24 gold passes had been issued to various ministries and agencies. For instance, passes had been issued to 13 branches within the Ministry of Tourism and Recreation.

- **Due to poor control over the issuing of passes, at least 5 individuals received 2 gold or silver season passes each.** These passes were issued to senior private and public sector people. None of these duplicate passes was returned.

- **43 lifetime passes had been cancelled but only 15 had been recovered.**
- **Numerous one day complimentary passes had been issued without reasons being recorded for their issuance.**

We recommended that the Corporation:

(1) consider reviewing its procedures to ensure that there is adequate justification for all free passes issued; and

(2) strengthen its controls over issuing and recording of free passes.

PARKING REVENUE

In a previous year's report to the Corporation, we noted that the collection procedure for parking fees did not ensure that all cash receipts were accounted for, since there was no independent reconciliation of parking revenue to the number of parking spaces "sold" per the automatic vehicle counters. As a result there existed the possibility that the cashier could keep parking fees collected by not recording the transaction.

We were informed that the automatic underground counters installed at the gates to the parking lots were not being used as an independent control because of the significant number of free parking passes in use which made a reconciliation impracticable. **During our current year's review we noted that this matter had not been corrected by the Corporation.**

In order to ensure that all cash receipts are accounted for, we recommended that the Corporation improve the controls over the collection of parking fees. For instance, the Corporation could post signs requesting customers to ensure they obtain a receipt and periodically perform surprise inspections of cashiers' receipts. We also recommended that the Corporation, in conjunction with their recently hired internal auditor, investigate these and other possible controls.

The following response was received on October 24, 1985:

Issuing of Free Passes

> *"Since Ontario Place first opened, a system of free seasonal and one-day passes has been in effect to meet public relations and promotional objectives of the Corporation. These passes are extended for the following three basic reasons:*
>
> *1) as a courtesy to public officials such as members of the legislature and metro area civic officials.*
>
> *2) to encourage cross promotion with other metro and provincial attractions and tourism related businesses.*

3) to promote patronage of the park by people from both the public and private sectors who have regular business dealings with the Corporation.

"The audit findings suggest there is a need for increased justification and control over the issuance of these passes. The Corporation would like to respond to these comments for each of the main pass categories identified.

1. Lifetime Passes

"The Corporation acknowledges that the existing state of the records on Lifetime Passes suggests there has been a lack of control in this area. The Corporation believes, however, that it is more the confusing state of the records rather than lack of control in issuing these special passes which is at issue. Since the audit report was received, a further search of the files yielded the following information:

—of the 13 prenumbered passes which could not be accounted for, the records indicate that 7 were issued and are still in use and 6 were used on pass boards at the gates and not returned to be voided;

—the auditor was mistakenly informed that 43 Lifetime Passes had been cancelled; this is simply not true as only the 15 passes that were voided and on file were cancelled; the balance were not cancelled and are still in effect.

"Much of this confusion resulted from a conversion from laminated cardboard cards to plastic credit-card type passes. The latter series began with the number 44 to ensure no disruption was made against the earlier versions which were still in effect. The Corporation will ensure that these records are substantially improved to provide a clearer audit trail.

2. Season's Passes

"Annual season's passes issued range anywhere from 1,500 to 2,000 in a given year. They are issued primarily for public relations and promotional reasons and cover a broad category of recipients including the following examples:

—all members of the legislature

—press gallery

—media including the ethnic press

—all deputy ministers

—the Haida Council

—tourism attractions and travel associations

—corporate sponsors

—civic officials and staff

—Exhibition Place officials and Sports Clubs

—a wide variety of Ontario Place business contacts

"As with Lifetime Passes, the Corporation believes that improved record-keeping and reconciliations will alleviate any future concern regarding potential abuse in this area.

3. Complimentary Passes

"The majority of one-day complimentary passes are distributed for promotional reasons. For example, during the 1985 season bulk amounts of complimentary passes were used for the following types of promotions:

—contra promotions with radio stations

—Opening Day promotion

—Young Drivers Safety Program

—several recognized charities

—Haida promotion involving two visiting ships, the Maestrale and USS Stark.

"Various other amounts were requisitioned to deal with public complaints (instead of refunds); for multi-cultural festivals; for official protocol purposes and as incentives for the hotel consignment program.

"While the Corporation believes there was a marked improvement from 1984 to 1985 in the recording of reasons justifying these pass requests, it will continue to make the records much more specific in detailing the purposes to which these passes are put.

"In summary, while the Corporation acknowledges that revenue loss at the gate occurs as a result of the free passes discussed above, it also believes that in many instances these pass receivers would not have come to Ontario Place

at all, or in the case of season's pass holders, not as frequently, without the pass. Therefore, on-site expenditures by these visitors would not have occurred either, which the Corporation believes offsets the gate loss.

"The Corporation would also like it noted that the current Minister of Tourism and Recreation, prior to receipt of this audit report, had requested the Corporation to review the entire pass system during the late fall period and propose recommendations to him prior to the '86 season."

Parking Revenue

"The Corporation accepts the recommendation with respect to improving control over the collection of parking fees by posting improved signage and conducting surprise inspections."

4.14 Stronger Monitoring Action Required re Statutory Reports, Pension Commission of Ontario

The financial statements of the Commission for the year ended March 31, 1985 reflect total expenditure of $1,225,000 and revenue of $616,000. The main purpose of the Commission is to promote the establishment, extension and improvement of pension plans and to accept all qualified pension plans for registration.

Our 1984 audit report to the Commission, which was issued subsequent to the printing deadline for our 1984 annual Report, highlighted the following matters:

- **Over 70 per cent of the companies listed as being in default regarding the filing of annual information returns were not, in fact, in default.**
- **Controls over the follow-up of triennial actuarial reports in default were weak.**
- **A $1.8 million claim paid from the Pension Benefits Guarantee Fund could have been reduced if earlier monitoring and corrective action had been taken by the Commission.**

DEFAULT REPORTS

Annual Information Returns

The Pension Benefits Act and its regulations require employers to file annual information returns with the Commission within six months following the end of the fiscal year of a pension plan. In these returns,

employers are also required to certify that all contributions with respect to the fiscal year have been paid.

Each year the Commission receives approximately 9,000 such returns from companies. Default reports of overdue returns are prepared monthly.

Because computer input and coding errors had not been properly and promptly corrected, approximately 72 per cent of the companies listed on the default reports were not, in fact, in default. This resulted in considerable time being spent determining true defaulted companies and manually sorting reminder letters before they were mailed.

In response to similar comments made by us in our 1982 report to the Commission, management advised us that steps would be taken to produce accurate monthly default reports.

Triennial Actuarial Reports

Regulations under the Pension Benefits Act require an employer, in respect of a registered pension plan, to file an actuarial report with the Commission not more than three years after the establishment of the plan and at intervals of not more than three years thereafter.

In our review of the triennial reports, management advised that there were approximately 200 such reports in default. The actual number of defaulted triennial reports was not known since no follow-up action on these reports had been taken since July 1983.

Again, we had pointed out this deficiency in our 1982 report to the Commission. We were advised then that appropriate corrective action would be taken to strengthen controls in this area.

On January 2, 1985 the Chairman of the Commission wrote as follows:

> *"Previous internal auditors and systems branch reviews of the Pension Commission computer system have recommended that substantial revisions to the existing systems are necessary. As a result of these findings a systems review was undertaken by the ministry's systems branch and in a recently completed report it was recommended that the entire systems be replaced. Once ministry's approval is received a submission will be made to Management Board for the required funds so that implementation can commence in the 1985/86 plan year.*
>
> *"Until this project is in place, and fully operational, the Commission has engaged and will continue to engage part time and contract staff to assist with backlog and workload*

in the monitoring and manual processing area. Also a Management Board submission for eight additional full time staff is being prepared in order to meet the immediate needs of the Commission so that reports and the Commission's monitoring role could be handled on a more timely basis.

"The inadequacy of the current computer system is primarily responsible for the numbers listed on the default report. Corrective measures and follow up procedures as outlined above are now in place.

"Over the past several months the Commission has given highest priority to its monitoring role and as of the date of writing, and because of the following factors there is no backlog in following up on true default filings:

—reviewing default reports every three months and other error reports monthly,

—changing the procedures whereby default in filing or payments are brought to the attention of the Commission members for possible prosecution,

—changing procedures so that annual returns for non-registered plans will be requested manually starting in January '85."

The status of these matters at the completion of our current year's audit in September, 1985 was as follows:

- An unsuccessful submission was made to Management Board in January, 1985 to replace the existing computer system. Another submission is planned for this fall.
- 8 additional full-time staff as well as contract employees were hired to meet the Commission's immediate needs.
- A regulation is in the process of approval which would double the annual information return fees if returns are not filed within 3 months of their due date (as opposed to the current 6 month grace period).
- The files of all annual information returns and triennial reports listed on default reports were reviewed and corrective action was taken, such as coding corrections and mailing reminder notices.

PENSION BENEFITS GUARANTEE FUND

Our preceding comments relating to default reports were of

particular importance in view of their impact on the future operations of the Pension Benefits Guarantee Fund.

The Fund, which is administered by the Commission, was established under the Pension Benefits Act in December 1980. The purpose of the Fund is to guarantee the payment, subject to certain limits, of the pension benefits of a defined benefit pension plan that is wound up under conditions specified in the Act. To the end of our audit in September 1984, three claims totalling approximately $1.9 million had been paid from the Fund. **We felt that a $1.8 million claim could have been reduced had corrective action been taken by the Commission earlier in monitoring the activities of the company, which went bankrupt in October 1982.** Specifically:

- The annual information returns submitted by the company for the years 1975 to 1977 inclusive indicated that the employer's contributions totalling approximately $286,000 were not paid into the company's pension plan.

- An actuarial report indicated an excess of assets over liabilities of approximately $340,000 as at December 31, 1978. On advice from its actuaries the company offset this gain against outstanding contributions of $434,000 and paid a reduced contribution of $94,000 into its plan.

  The Commission should have advised the company and its actuaries that such action was in contravention of the Pension Benefits Act and its regulations, which do not allow gains to be offset against current and past service contributions due.

- The annual information returns submitted by the company for the years 1979 to 1982 indicated that once again the employer's contributions totalling approximately $1 million were not paid into the plan.

The Chairman replied as follows:

> *"Again the Commission has given highest priority to its monitoring role so that there would be no backlog in following up on default companies. Also being considered is strengthening the legislation to require that annual reports are filed on a more timely basis, i.e., within three months; that contributions to pension plans are remitted more frequently, i.e., every month; and that a company official be designated to submit information to the Commission."*

Our current year's (1985) audit revealed that monitoring procedures had improved.

4.15 Newly Established Crown Agencies

Four Crown Agencies were established during the 1985 fiscal year. Of these, the Grain Financial Protection Board, the Processing-Vegetable Financial Protection Board and the Provincial Judges Benefits Fund are agencies of the Crown and are audited by our Office. The Stadium Corporation of Ontario Limited is a Crown controlled corporation, audited by a public accounting firm.

Grain Financial Protection Board

This Board (a corporation without share capital) was established effective October 15, 1984 by a regulation made under the Farm Products Payments Act. The Board was constituted to administer the Fund for Grain Corn Producers and the Fund for Soya-Bean Producers. These funds were established to protect grain corn and soya-bean producers against any loss through default in payment by dealers of these products.

Processing-Vegetable Financial Protection Board

This Board, also a corporation without share capital, was established effective June 1, 1984 by a regulation made under the Farm Products Payments Act. The Board was constituted to administer the newly-established Fund for Processing-Vegetable Producers, a fund to protect vegetable producers against any loss through default in payment by dealers who buy and process vegetables.

Provincial Judges Benefits Fund

This Fund was established effective July 1, 1984 by a regulation under the Courts of Justice Act, as part of an enhanced benefits plan for Provincial Court Judges and Masters of the Supreme Court of Ontario. The Fund was created in order to secure and maintain the independence of Provincial Court Judges. As part of the Fund's establishment, moneys held by the Public Service Superannuation Fund and the Superannuation Adjustment Fund to the credit of Judges and Masters as of July 1, 1984 have been transferred to this Fund. Other contributions to and benefits from the Fund are as defined by the aforementioned regulation.

Stadium Corporation of Ontario Limited

This Corporation was established on August 1, 1984 by articles of incorporation under the Business Corporations Act, 1982 (Ontario). The corporation was formed to decide on a site for a proposed domed sports stadium and to report on how the project should be financed. The actual ownership of the proposed stadium, together with the construction and operation thereof, will likely be vested in a wholly-owned subsidiary, the Stadium Corporation, which was incorporated on April 30, 1985.

5

PUBLIC ACCOUNTS OF THE PROVINCE

5.1 Preparation of the Public Accounts

The Public Accounts, which are published in three volumes, are prepared by the Ministry of Treasury and Economics under the direction of the Treasurer of Ontario as stipulated in section 13 of the Ministry of Treasury and Economics Act. This section reads as follows:

> "The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year."

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or

(b) which have borrowed from the Province, or

(c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of the expenditure for each ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Although the information contained in Volume 3 is not audited in detail by this Office, it is subject to testing to verify its accuracy.

5.2 Financial Statements of the Province

GENERAL

The audited financial statements of the Province for the year ended March 31, 1985 are reproduced as Exhibit 2 of this Report. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

The transactions of the Province are presented through the Statement of Consolidated Revenue Fund Transactions in summary form under the following three categories of government activity:

- Budgetary transactions, representing the Province's operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other;
- Non-budgetary transactions, representing the lending, investment and trust administration activities; and
- Financing transactions, representing borrowing and repayment activities. These are classified as either "debt transactions" (amounts borrowed by the Province for its own needs) or "Ontario Hydro transactions" (amounts borrowed by the Province on behalf of Ontario Hydro).

Regarding Ontario Hydro transactions, the Province issues debentures and advances the proceeds to Ontario Hydro in exchange for bonds with the same terms and conditions. In any year, the overall end result of these reciprocal transactions is that payments are equal to recoveries. Since these transactions are not part of the Province's own budget plan, they are classified separately.

The Statement of Financial Position reflects the financial claims that have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by others on the Consolidated Revenue Fund. Since expenditures on fixed assets do not represent claims on other parties and are not considered to differ from any other service to the public, they are not reported as assets but are expensed as budgetary transactions in the year of acquisition.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On the basis of evidence examined, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts, and as to their consistency.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 1-2 of Volume 1 of the 1984-85 Public Accounts, which forms part of Exhibit 2 of this Report.

Such Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

CHANGE IN ACCOUNTING POLICY

As covered in the Summary of Significant Accounting Policies and in note 10 to the financial statements, commencing with the March 31, 1985 fiscal year, there has been a change in the accounting treatment of loan transactions denominated in foreign currencies. This change, with which we agree, was made for the purpose of producing a more realistic value of the Province's assets and liabilities as shown in the financial statements.

5.3 Advances and Loans Repayable from Annual Expenditure Appropriations

Page 2-28 of Volume 1 of the 1984-85 Public Accounts summarizes the balances of advances or investments by the Province in corporations, boards and commissions other than Ontario Hydro. Additionally, page 2-31 summarizes the balances of other loans and investments by the Province, including loans to public hospitals.

The balances recorded in the Public Accounts do not necessarily represent the amounts the Province expects to truly realize. As stated in the Summary of Significant Accounting Policies, the funds required to repay certain of the advances and loans are provided out of future years' Provincial expenditure appropriations. Examples of loans and advances in this category are as follows:

—Virtually all of the advances of $1,011,766,034 to The Ontario Universities Capital Aid Corporation are repayable out of future years' Provincial expenditure appropriations. Under a program discontinued in 1978, the Corporation used funds advanced by the Province to purchase debentures issued by colleges, universities and related institutions for capital construction

purposes. The debenture debt of the issuing institutions is repaid, with interest, over the term thereof by utilizing moneys appropriated annually by the Legislature. The Corporation, in turn, utilizes the proceeds to repay, with interest, its advances from the Province.

—The situation with respect to the repayment of advances of $835,869,000 made by the Province to The Ontario Education Capital Aid Corporation is analogous to that outlined in the preceding example. Under a program discontinued in 1980, an average of 75% of the advances by the Province to this Corporation are repayable out of future years' expenditure appropriations.

—Loans of $132,441,906 to public hospitals as at March 31, 1985 are partially repayable out of future years' Provincial expenditure appropriations. Under a program discontinued in 1978 (and replaced by capital grants), public hospitals used loans advanced by the Province for capital construction purposes. Using, in part, moneys appropriated annually by the Legislature, the hospitals repay their loans, with interest, over the term thereof. For the 1985 fiscal year, $10,088,287 was subsidized by way of grants from the Province to the hospitals.

—Advances to the three Development Corporations (Ontario, Northern and Eastern) include amounts regarding term loans made by the Corporations. Each year, the Corporations write off certain term loans that are deemed to be uncollectible. When such loans are written off, moneys appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances from the Province. For the year ended March 31, 1985, $9,404,769 was so utilized.

5.4 Payments out of the Consolidated Revenue Fund

Payments out of the Consolidated Revenue Fund are of three classifications:

- Budgetary Transactions — expenditure, consisting of payments for goods and services, salaries, interest on public debt, subsidies and grants, and acquisition or construction of fixed assets;
- Non-Budgetary Transactions — loans, advances and investments, payments from pension and related adjustment funds, and payments from trust and special purpose accounts;

• Financing Transactions — retirement of debt.

These payments are of two major types: those pursuant to Estimates, including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. The nature of Management Board Orders is more fully explained in section 5.8.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in section 5.9.

A comparative summary of payments out of the Consolidated Revenue Fund is as follows:

Payments re:	1985 ($ millions)	1984 ($ millions)
Voted Appropriations per Legislative Assembly		
Budgetary Expenditure	22,729	21,446
Loans, Advances and Investments	118	125
	22,847	21,571
per Management Board Orders		
Budgetary Expenditure	536	231
Loans, Advances and Investments	—	1
	536	232
Total Voted Appropriations	23,383	21,803
Statutory Appropriations		
Budgetary Expenditure	3,166	2,875
Loans, Advances and Investments	51	51
Payments from Pension and Related Adjustment Funds	229	174
Trust and Special Purpose Accounts	68	33
Retirement of Loans	109	277
Total Statutory Appropriations	3,623	3,410
Total Payments	27,006	25,213

Reference has been made in section 5.2 to Ontario Hydro transactions. Since these transactions are not part of the Province's own budget plan, and since these transactions flow through the Consolidated Revenue Fund without increasing or decreasing the overall balance in the Fund, they have not been included in the preceding summary.

5.5 Voted Appropriations — Comparison of Authorized and Actual Payments

This comparison for the fiscal year ended March 31, 1985 is as follows:

	Authorized ($ millions)	Actual ($ millions)	Actual Under (over) Authorized ($ millions)
Voted Appropriations per Legislative Assembly			
Budgetary Expenditure	23,115	22,729	386
Loans, Advances and Investments	136	118	18
	23,251	22,847	404
per Management Board Orders			
Budgetary Expenditure	580	536	44
	23,831	23,383	448

5.6 Statutory Appropriations

Payments from Statutory Appropriations represent those where the specific authority to spend money from the Consolidated Revenue Fund is expressly contained in a statute of the Legislature.

As such, Statutory Appropriations are not voted upon and do not require the approval of the Legislature. However, for the information of the Legislature, they are provided for in the annual Estimates and represent the amount the government estimates will be spent in accordance with the authority given in the various statutes. Unlike Voted Appropriations, Statutory Appropriations do not require Management Board Orders when spending exceeds the amounts provided for.

A detailed listing of Statutory Appropriations, showing the amounts provided in the Estimates (Main and Supplementary) and expended, is included as Exhibit 4 of this Report.

During the 1985 fiscal year, Statutory Appropriation payments made under the authority of 30 Acts exceeded $3.623 billion. This expenditure constituted 13.4 per cent of the total payments out of the Consolidated Revenue Fund (1984, 13.5 per cent).

A comparative summary, by authorizing legislation, of such payments exceeding $50 million is as follows:

	1985 ($ millions)	1984 ($ millions)
Financial Administration Act	3,087	2,827
Teachers' Superannuation Act	209	189
Public Service Superannuation Act	164	125
Superannuation Adjustment Benefits Act	63	153
	3,523	3,294

Public Debt interest expenditure of $2.922 billion and $2.534 billion for fiscal years 1985 and 1984 respectively is included in the amount shown under the Financial Administration Act.

Excluded from the preceding figures are Statutory Appropriations relating to Ontario Hydro Transactions which can be summarized as follows:

	1985 ($ millions)	1984 ($ millions)
Financial Administration Act		
Ontario securities issued on behalf of Ontario Hydro:		
—interest paid	874	800
—securities retired	80	160
Power Corporation Act		
Advances to Ontario Hydro	719	428
	1,673	1,388

5.7 Statement of Budgetary Expenditure

The Statement of Budgetary Expenditure is contained in Volume 1 of the 1984-85 Public Accounts and is reproduced in Exhibit 2 of this Report. A more detailed analysis of total budgetary expenditure can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the 1985 and 1984 fiscal years as shown on pages 2-15 and 2-15, respectively, of Volume 1 of the Public Accounts may be summarized as follows:

	1985 ($ millions)	%	1984 ($ millions)	%
Transfer Payments	19,453	73.6	18,039	73.5
Salaries and Wages	2,258	8.6	2,160	8.8
Other Transactions				
—Public debt expenditure (interest on debentures, etc.)	2,922	11.1	2,534	10.3
—Other	76	0.3	82	0.3
Services	983	3.7	982	4.0
Acquisition/Construction of Physical Assets	401	1.5	444	1.8
Supplies and Equipment	462	1.7	441	1.8
Employee Benefits	346	1.3	348	1.4
Transportation and Communication	236	0.9	224	0.9
	27,137		25,254	

Less: Recoveries from other Activities, Ministries, etc.	706	2.7	701	2.8
Total Budgetary Expenditure	26,431	100.0	24,553	100.0

Transfer payments represent expenditure made to individuals, organizations and other levels of government for which the Province does not directly receive goods or services. Such expenditure is made in accordance with legislation or established ministry policy.

Recoveries from other Activities and Ministries relate mainly to costs incurred by certain ministries, on behalf of other ministries, which are subsequently recovered from the benefiting ministries. For Public Accounts presentation purposes, these recoveries are generally not netted against the particular expenditure category or sub-category (e.g. salaries and wages, services, etc.) but are deducted in total from aggregate expenditure.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on page ix of Volume 1 of the 1984-85 Public Accounts.

During the past two years approximately 80 per cent of the total transfer payments was expended by four ministries. A summary of this expenditure for the four ministries, including identification of major categories exceeding $150 million, is as follows:

	1985 ($ millions)	1984 ($ millions)
Ministry of Health		
Operation of hospitals and related facilities	4,109	3,804
Payments re physicians' and practitioners' services under OHIP	2,417	2,150
Ontario Drug Benefit Plan	290	254
Extended Care Health Insurance Benefits	251	242
Other transfer payments	836	709
	7,903	7,159
Ministry of Education		
Grants for elementary and secondary education (to school boards)	3,102	2,969
Payments to Teachers' Superannuation Commission*		346
Other transfer payments	17	16
	3,119	3,331

Ministry of Community and Social Services		
Provincial and municipal allowances and benefits	1,249	1,128
Childrens' Social Services	382	358
Adults' Social Services	303	284
Developmental Services — Adults and Children	203	181
Other transfer payments	59	50
	2,196	2,001
Ministry of Colleges and Universities		
Grants for universities and related organizations	1,297	1,240
Grants for colleges of applied arts and technology, etc.	515	495
Other transfer payments	353	325
	2,165	2,060
Total	15,383	14,551

* In 1985 payments to the Teachers' Superannuation Commission ($378 million) are recorded in the Ministry of Treasury and Economics.

5.8 Management Board Orders

GENERAL

Section 5 of the Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

A summary of the Management Board Orders issued for the past five fiscal years is as follows:

	Number of Board Orders	Number of Items	Authorized Amounts $
1985	103	297	580,422,400
1984	94	265	267,785,900
1983	90	348	481,314,900
1982	108	394	508,421,348
1981	80	441	513,838,600

By way of additional information, the Management Board Orders for the 1985 fiscal year are summarized as follows by month of issue:

Month of Issue	Number	Authorized $	%
July 1984 to February 1985 ..	39	73,019,000	12.58
March 1985	38	247,556,400	42.65
April 1985	26	259,847,000	44.77
	103	580,422,400	100.00

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 3 of this Report.

In accordance with Standing Order 51 of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, together with explanatory information.

FUNDING OF DOMED STADIUM

One of the preceding Management Board Orders was issued in March 1985 in the amount of $30 million to cover Ontario's contribution for the construction of a domed stadium in Toronto. This amount was paid to the Stadium Corporation of Ontario Limited by the Ministry of Tourism and Recreation as a Lottario transfer payment.

In its report and application to Management Board for this Order, the Ministry's request was based on the fact that the appropriation involved (Ministry Field Operations) was insufficient for the 1985 fiscal year, and that the public interest necessitated such payment.

In a letter to the Deputy Minister, we expressed concern with this rationale, since we had seen no evidence as to why or how the public interest necessitated this payment being made immediately, as a charge to the March 31, 1985 fiscal year.

- In the Ministry's application and report to Management Board, the purpose of the transfer payment was stated as being "for capital expenditures related to the construction of a domed stadium . . .". However, it was further stated that construction was not estimated to commence until the fall of 1985.
- No construction funds had as yet been paid to the Stadium Corporation by either Metropolitan Toronto or the consortium of private interests.

On May 17, 1985 the Deputy Minister advised us as follows:

"You may recall that Metropolitan Toronto had demonstrated its commitment by a resolution allocating funds to be derived from tax revenue. The private sector consortium had originally proposed that their $70 million

would flow to the Stadium Corporation on dates that would be incompatible with the funding requirements of the stadium's construction. Negotiations with the consortium to give concrete expression to their commitment in a form acceptable to the Stadium Corporation have been in progress since February.

"At its March 4, 1985 meeting, the Board of Directors of the Stadium Corporation reviewed the private sector consortium funding proposal. The Board was of the view that the Stadium Corporation would be in a stronger position to negotiate a more advantageous business arrangement with private sector investors if the Province's commitment for $30 million was implemented.

"On this basis our Ministry initiated the Management Board Order referred to in your letter and made an agreement with the Stadium Corporation of Ontario Limited for the funds to be deposited in a special account to be applied solely for the purposes of capital costs of the construction of the stadium. Any withdrawal, disbursement or transfer from the account is subject to prior written approval. Furthermore, if the construction of the stadium does not proceed, the funds will be returned to the Province."

5.9 Special Warrants

Section 4 of the Management Board of Cabinet Act provides for the issue of a special warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

No special warrants were issued in respect of the fiscal year ended March 31, 1985.

5.10 Transfers Authorized by Board of Internal Economy

Section 88 of the Legislative Assembly Act reads:

"The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote and the Provincial Auditor shall make special mention in his report of any transfer under this section."

In respect of the 1984-85 expenditure estimates, the following transfers totalling $401,378 were made within Vote 1101:

From:	Item 10	Constituency Offices	$401,378
To:	Item 3	Chief Election Officer	145,444
	Item 6	Members' Indemnities	255,934

5.11 Write-Off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

A summary of the losses deleted from the accounts for the past five fiscal years is as follows:

	$
1985	31,714,533
1984	17,556,530
1983	9,658,738
1982	12,607,776
1981	10,295,160

The following comments are provided for some of the larger write-offs in the 1985 fiscal year.

The Ministry of Revenue wrote off $14,861,724 with respect to various unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	$
Retail Sales Tax Act	7,683,133
Corporations Tax Act	5,991,275
Ontario Guaranteed Annual Income Act (GAINS)	435,922
Motor Vehicle Fuel Tax Act	415,818

The majority of these write-offs occurred within one year of the accounts being deemed uncollectible.

The Ministry of Consumer and Commercial Relations wrote off $7,606,730 with respect to uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund.

Uncollectible accounts totalling $2,904,817 relative to fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. Virtually all of these write-offs involved accounts at least four years old.

The Ministry of Municipal Affairs and Housing wrote off $2,118,600 with respect to second mortgage loans under the Ontario Rental Construction Loan Program. These losses were incurred due to shortfalls in the proceeds from the sale and transfer of properties, under power of sale actions taken by the first mortgagees.

The Ministry of Colleges and Universities wrote off $1,977,408 relative to various student support programs. The major portion of this write-off pertained to loans made to students whose whereabouts were unknown, or who were unable to pay.

6

OFFICE OF THE PROVINCIAL AUDITOR

6.1 Accountability and the Role of the Provincial Auditor

In our system of governing, responsibility and accountability go hand in hand. The Government collects, disburses and manages public funds. This stewardship of public resources is counterbalanced by the principle that Government is answerable to the public for the manner of its stewardship.

The role of the Provincial Auditor can be best understood by describing how the Auditor's role complements the accountability of Government to the Legislature.

THE ACCOUNTABILITY PROCESS IN GOVERNMENT

In the Province of Ontario, the accountability of Government begins with the presentation of the Budget (annual revenue and expenditure estimates) for debate in the Legislature. The Budget sets out how revenue is to be raised and, through the detailed expenditure estimates, how this money will be spent and what limitations have been placed on the amounts which can be spent for any particular purpose.

Once the Legislature has approved the Budget and expenditure estimates, it is the Government's responsibility to carry out these revenue and spending plans. Pursuant to this responsibility, the Government is accountable to the Legislature for the manner in which it administers these funds. Question periods and motions of non-confidence are among the methods used by the Legislature in reviewing the Government's administration of funds.

More specifically, the Legislature must ensure that the Government has been financially accountable, that is, that funds have been spent for approved purposes only and that value has been received for money spent. This is achieved primarily through the scrutiny of the Government's financial statements (Public Accounts).

The primary legislative forum for the examination of government accounts and practices is the all-party Standing Public Accounts Committee. The Committee has the power to call upon officials of the government to account for the legality and prudence of government expenditures, as well as adherence to proper policies and procedures.

THE NEED FOR A LEGISLATIVE AUDITOR

In examining government accounts and administration, members of the Legislature require the assistance of an impartial and independent body — a body which has the authority to examine government records and practices, and which can report its findings directly to the Legislature without pressure from either governmental or other sources.

In Ontario, this role is fulfilled by the Office of the Provincial Auditor.

The Office acts as an external auditor for the Legislative Assembly. It essentially performs an external auditing function with respect to the ministries and many agencies of the Ontario government.

INDEPENDENCE OF THE PROVINCIAL AUDITOR

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the province of Ontario has enacted a separate act, the Audit Act, setting out the rights and responsibilities of the Provincial Auditor. Pertinent sections of this Act are set out in Exhibit 1 of this Report.

The Provincial Auditor is appointed as an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Public Accounts Committee. The Auditor may be removed for cause at any time by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is an entity distinctly separate from any government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party Legislative committee independent of the government's administrative process.

ACCOUNTABILITY OF THE PROVINCIAL AUDITOR

The Provincial Auditor complements the accountability relationship between the Government and its administrators, and the Legislative Assembly. The following is a brief overview of this complementary role.

To the Legislature

As an officer of the Legislative Assembly, the Provincial Auditor is accountable to the citizens of Ontario through their elected representatives. The Auditor fulfills this accountability relationship by presenting to the Speaker of the Legislative Assembly an annual Report of the Government's stewardship of public funds. The Auditor is held personally accountable for the presentation of this Report, which becomes a public document when laid before the Assembly.

To the Standing Public Accounts Committee

After being tabled in the Legislative Assembly, the Provincial Auditor's annual Report is referred to the Standing Public Accounts Committee for review. The Office assists the Committee in reviewing the annual Report as well as the Public Accounts of the Province. The Provincial Auditor and senior staff members attend meetings of the Committee and provide assistance by answering questions or clarifying matters under review. The Committee also has the power to have the Office examine and report on any other matters of interest to the Committee.

To the Board of Internal Economy

The Provincial Auditor is accountable to the Board of Internal Economy, and thus to the Legislative Assembly and the public, for Office expenditures and staffing. The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The Chairman and Vice-Chairman of the Standing Public Accounts Committee have the option of attending the review of the estimates.

In accordance with section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1985 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report have been submitted to the Board of Internal Economy and tabled in the Assembly. They are included as Exhibit 8 of this Report.

OTHER ACCOUNTABILITY

The Canadian Institute of Chartered Accountants (CICA) develops and issues recommendations which constitute "generally accepted auditing standards". The Office adheres to these standards, which are published in the CICA Handbook.

The Practice Inspection Process

The Institute of Chartered Accountants of Ontario (ICAO) has an

inspection program for all ICAO members engaged in the practice of public accounting in Ontario. Since the Provincial Auditor, as required by the Audit Act, holds a public accounting licence, expresses opinions on financial statements and trains accounting students, the Office is subject to inspection under this program.

The Office was inspected in early 1984 with satisfactory results. In accordance with the normal inspection cycle, the Office will be inspected again in approximately three years.

Internal Quality Control Review

The Office has established internal quality control procedures for its own operations. This ensures compliance to CICA Handbook Standards, as well as to Office policies and practices.

6.2 Office Goals

PRIMARY GOAL

The primary goal of the Provincial Auditor is:

—To assist the Legislature hold the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor seeks to achieve this goal by examining the accounts of the Province and presenting an annual Report to the Legislature.

SECONDARY GOAL

The Provincial Auditor's secondary goal can be expressed as follows:

—To assist deputy ministers/agency heads hold their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

It must be noted that this goal does not fall under the legislative requirements in the Audit Act. With respect to agencies, the Provincial Auditor's role is generally stipulated in the enabling legislation. This is not the case, however, for ministries. The Provincial Auditor reports to deputy ministers not because of legislative requirement, but because such reporting is recognized as a natural extension of the Office's primary goal. It is also seen to be in the best interests of good government administration.

The Office's secondary goal is achieved when the Provincial Auditor reports to a deputy minister or to an agency head at the conclusion of each audit. These reports consist of assessments of significant areas covered in the course of audit together with recommendations for improvement.

6.3 Audit Responsibilities

AUDIT UNIVERSE AND PARTICIPANTS

The audit universe in government is comprised of three main audit areas:

- the accounts and records relating to the receipt and disbursement of public money forming part of the Province's Consolidated Revenue Fund; in effect, the audit of the Province's financial statements and the audits of ministries;
- agencies of the Crown, as defined in section 1(a) of the Audit Act;
- Crown controlled corporations, as defined in section 1(e) of the Audit Act.

The participants in the audit process include the Provincial Auditor, public accounting firms and internal auditors.

INTERNAL AUDITORS

Internal auditors undertake audits of their respective ministries and agencies. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

Internal auditors act as key advisors to management by helping to ensure that control procedures are reliable. They generally report to the respective department head and the deputy minister or, in the case of Crown agencies, to the agency head.

PUBLIC ACCOUNTING FIRMS

Public accounting firms are involved in the audits of some agencies of the Crown and Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1985 is included as parts

(iii) and (iv) of Exhibit 7. The twenty-two Crown controlled corporations audited by public accounting firms for the year ended March 31, 1985 are also listed as part of Exhibit 7.

Agencies of the Crown

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

Crown Controlled Corporations

Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor together with a copy of their findings and recommendations to management (management letter).

Matters of interest or significance raised in management letters may be subsequently included by the Provincial Auditor in the annual Report.

Section 9(3) of the Audit Act permits the Provincial Auditor to request from other auditors:

- working papers, reports, schedules and other documents;
- explanations and information about the nature and extent of the audit work carried out and the results obtained.

Currently the Office reviews working papers and other documents on a cyclical basis of at least once in a four year period.

When Crown controlled corporations are audited by public accounting firms, the Provincial Auditor neither directs nor is responsible for the audit. However, if the Provincial Auditor believes that the information, explanations and documentation, obtained through application of section 9(3) of the Act, are insufficient, he can conduct, or have conducted, such additional examination as is considered necessary.

THE PROVINCIAL AUDITOR

Primary Audit Responsibilities

The primary audit responsibilities of the Provincial Auditor are twofold and involve the examination of the accounts of the Province and the accounts of agencies of the Crown.

Accounts of the Province

In conformity with section 9(1) of the Audit Act, all ministries are subject to legislative audit. The audits, when combined with audit

activities related to the accounts of the Province, enable the Provincial Auditor to express an opinion on the Province's financial statements. A listing of the ministry audits covered by this Report appears in Exhibit 6.

It should be noted that certain Crown controlled corporations, such as the Liquor Licence Board and the Niagara Escarpment Commission, do not contain any audit provision. The revenue of these corporations is not retained. Rather, it is deposited directly into the Consolidated Revenue Fund of the Province. Furthermore, such corporations' expenditures are paid by ministries out of moneys appropriated by the Legislature. As a result these corporations have no assets or liabilities for accounting purposes, and thus their operations and transactions are subject to audit as part of the ministry audit process.

Accounts of Agencies of the Crown

Section 9(2) of the Audit Act states that, where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1985, the Provincial Auditor had direct audit responsibility for sixty-four agencies of the Crown pursuant to his appointment as auditor by shareholders, governing bodies or under various statutes. These agencies are listed as parts (i) and (ii) or Exhibit 7 of this Report.

Additional Audit Responsibilities

Under section 16 of the Act, the Provincial Auditor is required to examine and report on any matter respecting the Public Accounts if directed by the Standing Public Accounts Committee.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Public Accounts Committee (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

6.4 Audit Activities

ATTEST AND COMPLIANCE

In order to express a professional opinion (i.e. attest) on the financial statements of the Province and numerous agencies of the Crown, audits are conducted in accordance with generally accepted auditing standards.

All ministry and agency audits include a general review of accounting procedures and systems of internal control, together with such tests of accounting records and supporting evidence as are considered necessary. Compliance with existing statutes, regulations and administrative requirements is also reviewed.

Transfer Payments

Transfer payments represent over 70 per cent of government expenditures. Commonly called grants, such payments represent expenditures for which the Province does not directly receive goods or services. They may include payments for specific purposes (such as the funding of school boards and universities) or the unconditional transfer of moneys (such as per capita grants to municipalities).

The Office's attest/compliance activities involve the testing of selected payments, including transfer payments, for proper authorizations and calculations, and for compliance with legal and administrative requirements. The ministries' internal audit branches may also carry out similar procedures. Duplication of effort is avoided by checking the extent of their coverage at the start of audits.

VALUE FOR MONEY

In addition to the preceding activities of an attest/compliance nature, the Audit Act requires the Office to report on any cases observed where money has been expended without due regard to economy and efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This is commonly known as the value for money audit mandate.

The Office undertakes reviews on a program, activity or system basis. These reviews are designed to assess components of the management process as they relate to economy, efficiency and procedures to measure effectiveness.

It must be stressed that it is not part of the Office's mandate to evaluate the effectiveness of programs, or to develop standards dealing with the efficiency of program delivery. These are ministry/agency management functions. The Provincial Auditor's responsibility lies in assessing the extent to which these functions have been carried out by management.

Transfer Payments

Government ministries are responsible for ensuring that funds provided in the form of transfer payments are well managed by the recipients, that is, spent with due regard for economy, efficiency and

effectiveness. Value for money auditing can assist funding ministries/agencies in the fulfillment of this responsibility.

The impetus for such auditing should come from the funding ministries/agencies themselves, with audits being conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries.

The Provincial Auditor is not directly involved in this value for money audit process. Indirect involvement may arise, however, when the Office is assessing the steps taken by a ministry to satisfy itself that funded organizations are being well managed.

OTHER AUDIT MATTERS

Inspection Audits of Transfer Payment Recipients

Inspection audits are defined as examinations of accounting records. They are designed to determine whether funds have been spent for the purpose for which they were provided. As such, they do not specifically involve value for money considerations. However, observations of such a nature may arise as a by-product of inspection audits.

Section 13 of the Act permits the Provincial Auditor to perform inspection audits of transfer payments made by the Province or an agency of the Crown, and to obtain a full accounting of the disposition of such payments from the recipients. Due to the multiplicity of recipients, the Office normally conducts inspection audits on an exception basis, where circumstances warrant the extension of a ministry or agency audit.

Ministry internal auditors may also carry out inspection audits pursuant to the terms of agreements with the grant recipients.

EDP Component of Audits

Governmental use of Electronic Data Processing (EDP) systems for financial and other management purposes has increased dramatically in recent years.

The Office examines the functioning of EDP systems by evaluating systems of internal control and conducting tests to assess the extent to which the system can be relied upon to provide accurate information. In addition to internal controls, the Office may also review the acquisition and overall management of EDP facilities.

The Office's Specialized Audits and Resources Branch audits the government's central computer facilities and other complex EDP systems. It also assists other branches of the Office when technical expertise is needed to audit computer applications or to test hardware/program controls.

SCHEDULING OF AUDIT ACTIVITIES

Ministry Audits

The Office conducts ministry audits on a cyclical basis. This means that, in addition to the annual attest audit work which is required in ministries for the expression of an opinion on the Province's financial statements, audit activity is conducted in some ministries every year, in others every second year, and in the remaining ministries every fourth year. The frequency of ministry audits depends on a number of factors, including total annual expenditure, diversity and complexity of operations, and the extent of significant regulatory responsibilities.

These cyclical ministry audits include a value for money component, normally done on a program/activity basis, and a financial component, undertaken on a financial system basis. The audits are designed to cover all major programs, activities and financial systems over a four year period.

Agency Audits

Agency of the Crown audits are always conducted on an annual basis. Depending on the dollar values involved, and the extent and complexity of agency operations, Office staff may conduct interim audits to reduce the work load at the end of the year. In addition to the regular attest/compliance audit activities, the Office reviews management's attention to economy and efficiency, as well as the measurement of the effectiveness of agency operations.

Coordination with Internal Audit

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry and agency Internal Audit Branches.

At or near the commencement of each audit, the auditor in charge meets with the director of the ministry's or agency's Internal Audit Branch to determine the nature and extent of internal audit reviews conducted during the period subsequent to our previous audit of the ministry or agency. As part of this process, the internal audit working paper files, reports to management and replies from management are reviewed.

Based on this review, our Office's audit work is modified to avoid areas that have already been adequately covered by the internal auditors.

6.5 Annual Report

REPORTING RESPONSIBILITY

Under Section 12 of the Audit Act, the Provincial Auditor is

required to report annually through the Speaker to the Legislative Assembly on the results of his examinations. Essentially, the annual Report includes the following information:

- an opinion on the Province's financial statements as to their fairness and consistency in accordance with stated accounting policies;
- the disclosure of matters of significance noted in the course of audits, including:
  - —accounts or essential records improperly maintained;
  - —inadequate procedures and rules for the safeguard of public property, the collection of revenue and the authorization of expenditure;
  - —money spent without due regard to economy and efficiency;
  - —lack of appropriate procedures to measure and report on the effectiveness of programs.

REPORTING PROCESS

The main body of the annual Report consists of sections of audit reports on ministries and agencies (see section 6.6). The steps in the preparation of the annual Report are as follows:

- ministry/agency reports are reviewed by the Office's Management Committee for matters of significance or interest to the Assembly;
- selected items and relevant ministry/agency responses received up to October 25 only (due to printing deadlines) are included in the annual Report;
- matters raised by public accounting firms in the audit of Crown controlled corporations may also be included in the Report;
- the Report is tabled in the Assembly and subsequently referred to the Standing Public Accounts Committee for review (see section 7.2);
- ministry/agency responses received after October 25, and pertaining to sections contained in the Report, are forwarded to the Committee;
- the Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report in meetings open to the general public.

Annual Report Briefings

On February 19, 1985 the Standing Public Accounts Committee

recommended the following procedures for adoption in conjunction with the tabling of the 1985 Report:

- two separate and simultaneous lockups (in camera meetings) until 2:00 o'clock p.m. on the day of the tabling in the Legislature;
- one lockup for all members of the Legislature and their research staff, and one lockup for the representatives of the media;
- the starting time of the lockups to be determined by the Provincial Auditor;
- the Auditor to meet with members of the press after oral Question Period in the Legislature.

These procedures have been adopted for this Report.

A lockup was held for the first time prior to the tabling of the 1984 Report, and it was restricted to members of the Standing Public Accounts Committee. Members of the media were given the opportunity to meet with the Provincial Auditor at a press conference after the Report was tabled, and following Question Period.

These 1984 procedures were subsequently discussed in the early part of 1985 by the Standing Public Accounts Committee. Some Committee members felt that caucus researchers should have been admitted to the lockup. It was also stated that the media had been given too little time to examine the 1984 Report.

After some debate, the Committee passed a motion recommending revised briefing procedures for the 1985 Report. It is hoped that the new procedures will allay the concerns expressed, while continuing to protect the traditional privileges of members of the Legislature.

6.6 Ministry and Agency Reports

REPORTING RESPONSIBILITY

The Provincial Auditor's secondary goal, as previously noted, is to assist deputy ministers or agency heads hold their administrations accountable. This goal is accomplished by issuing audit reports on the individual ministries and, for agencies of the Crown, issuing reports and expressing an opinion on their financial statements. Exhibits 6 and 7 provide a listing of such audits.

REPORTING PROCESS

At the conclusion of each audit the reporting process involves:

- discussion of the draft report with senior officials designated by

the ministry or agency, but not including those to whom the final report is to be addressed;

- revision of the draft report, resulting from the discussion or from the final review by senior Office management;
- issue of the final report to the ministry's deputy minister or, in the case of agencies, to the board of directors and the minister of the associated ministry;
- further discussion of the report if requested by the ministry or agency.

Where interim audits of agencies have occurred the reporting procedures are as follows:

- in a letter to the chief executive officer, the appropriate branch director in our Office outlines major findings and recommendations;
- significant findings in the interim letter, together with the current status, are included in the Office's final report.

6.7 Additional Reporting Matters

SPECIAL ASSIGNMENTS

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Act, relate to performing special assignments for the Legislative Assembly, the Standing Public Accounts Committee or a minister of the Crown. At the conclusion of such work, the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1984 to September 1985) covered by this Report, the Office tabled reports on four special assignments initiated by the Standing Public Accounts Committee:

Audit Assignment	Motion to Initiate	Reports Tabled
Algonquin Community College	May 17, 1984	November 22, 1984 and January 18, 1985
Rygate Subdivision Agreement	May 31, 1984	November 15, 1984
Small Business Development Corporation Program	November 22, 1984	July 11, 1985
Construction of a Domed Stadium	August 15, 1985	September 12, 1985

Further details on these assignments can be obtained by referring to section 7.3.

SPECIAL REPORTS

In addition to the annual Report, the Provincial Auditor is permitted, by section 12(1) of the Audit Act, to present a special report to the Speaker of the Assembly at any time and on any matter he believes should not be deferred until the next annual Report. The Speaker is then required to lay such a report before the Assembly. To date no such special reports have been issued by the Office.

6.8 Public Disclosure of Reports

ANNUAL REPORT

The annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Public Accounts Committee when the annual Report is being reviewed.

MINISTRY AND AGENCY REPORTS

The individual audit reports issued at the conclusion of each ministry or agency audit are not laid before the Legislative Assembly or a committee of the Assembly, nor are the reports to management by the auditors of Crown controlled corporations. However, the Standing Public Accounts Committee or any other committee of the Legislature may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies and agency interim letters are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

REPORTS ON SPECIAL ASSIGNMENTS

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

6.9 Office Organization and Personnel

ORGANIZATION

For the period covered by this Report, the Office of the Provincial Auditor consisted of six branches, each headed by a Director. The six branch Directors, together with the Director of Personnel and

Administration, the Assistant Provincial Auditor and the Provincial Auditor, collectively comprised the Office's Management Committee. An organization chart of the Office is presented as Exhibit 5 of this Report.

Policy Field Branches (4)

The four Policy Field branches are responsible for the audits of all ministries and agencies of the Crown falling under each of the Provincial Government Policy Fields — General Government, Justice, Resources Development and Social Development. These branches also have responsibility for coordinating the Office's relationship with the external auditors of those Crown controlled corporations for which the Provincial Auditor is not the designated auditor.

Reporting and Standards Branch

The primary responsibilities of this branch are the audit of the Province's financial statements which appear in Volume 1 of the Public Accounts, the preparation of the Annual Report of the Provincial Auditor to the Legislature, the development and maintenance of the Office's Audit Manual, and the conduct of post-audit quality control reviews.

Specialized Audits and Resources Branch

This branch has basic responsibility for EDP audits, and for recruitment, staff training and professional development.

PERSONNEL

The composition of the staff of the Audit Office at September 30, 1984 and 1985 was as follows:

	September 30	
	1984	1985
Management committee	9	9
Audit managers	14	14
Audit supervisors	14	17
Auditors	14	19
Auditor trainees	32	34
Personnel and administrative	8	11
Total staff	91	104

As indicated by the preceding summary, there was an increase of 13 staff members during the year. This net increase was the result of the hiring of 24 new staff members together with 11 members leaving the Office.

Auditor trainees are enrolled in various stages of courses leading to professional qualifications through either The Institute of Chartered Accountants of Ontario (CA) or The Society of Management Accountants of Ontario (CMA).

RECENT CHANGES IN ORGANIZATION

As a result of our 1985-86 Estimates submission, which received the approval of the Board of Internal Economy, the Office has implemented the following organizational changes, effective October 1, 1985:

1) Creation of a new Special Assignments Branch — Special assignments have become a significantly increasing component of the Office's work in the past few years. Some of these assignments have been undertaken in response to resolutions or requests from the Standing Public Accounts Committee, and others have been initiated on our own, in response to what we perceive as the needs and interests of the Legislature. Since we see such reviews continuing as a key activity, particularly in our efforts to focus on issues that cross Ministry/Agency lines or that may be government-wide, a new Special Assignment Branch has been formed, headed by a Director.

2) Establishment of two Executive Director positions — Over the past few years, out of necessity, both the Provincial Auditor and Assistant Provincial Auditor have become overly involved with the day to day work flow and operations of the Office, particularly with the increasing emphasis on value for money auditing and the aforementioned special reviews. To allow senior management positions more opportunity to address broad management concerns such as long-term planning as well as the planning and monitoring of audit activities, two Executive Director positions have been established.

6.10 Staff Training and Professional Development

During the year the Office continued to provide its professionally qualified staff with in-house developed courses and seminars. Additionally, selected staff also attended specialized courses offered outside the Office. The courses and lectures covered such topics as management skills, value for money auditing and management by results.

Most of the training provided for the students employed by the Office is carried out during audit assignments. This on-the-job training is supplemented with in-house courses in accounting, auditing and EDP principles and practices.

These training and professional development activities help to ensure that staff maintain the technical competence and management skills necessary to keep abreast of current audit approaches, and to carry out audits in a more economical and efficient manner.

6.11 Canadian Conference of Legislative Auditors

The thirteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Whitehorse, Yukon, from July 7 to 10, 1985. This gathering, bringing together legislative auditors from all the provinces and Canada, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

Matters discussed at the Conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, included:

- improving the audit process;
- improving audit productivity;
- the way governments account for tax expenditures;
- methodology for EDP auditing.

7

THE STANDING PUBLIC ACCOUNTS COMMITTEE

7.1 Appointment and Composition of the Committee

Standing Order 91 of the Legislative Assembly provides for the appointment of an all-party Public Accounts Committee for the duration of each Parliament, in this way providing continuity of membership.

The membership of the Committee is proportional to the respective Party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

The current Public Accounts Committee was appointed in July 1985, soon after the commencement of the First Session of the Thirty-Third Parliament. Membership on the Committee consists of five Progressive Conservatives, four Liberals and two New Democrats for a total of eleven members. As has been the case since 1968, the Chairman of the current Committee is a member of the Official Opposition Party (Progressive Conservative).

7.2 Role and Responsibilities of the Committee

Standing Order 91 requires that the Report of the Provincial Auditor and the Public Accounts be referred to the Committee as they become available. These documents, therefore, form the basis of the Committee's role.

In essence, the role of the Committee is to hold the Cabinet and government bureaucracy accountable for their administration. This accountability flows to the Committee, to Parliament, and ultimately, to the public at large.

In order to fulfil this role, the Committee examines, assesses and reports to the Legislature on a number of issues, including:

- the reliability and appropriateness of information in the Public Accounts to provide a fair accounting of operations and financial transactions;
- the assessment, collection and proper allocation of revenue;
- the maintenance of expenditures within the limits and for the purposes authorized by the Legislature;

- the adequacy of controls to protect assets from loss, waste and misappropriation;
- the regard for economy in the acquisition of goods and services;
- the regard for efficiency in operations;
- the effectiveness of programs in meeting their stated objectives.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Public Accounts Committee in the fulfillment of its role. Committee members are generally neither professional accountants nor are they overly familiar with the details of management systems and controls. In order for members to make sense of, and to deal constructively and intelligently with the issues previously noted, the Office endeavours to present relevant information to the Committee in a clear and precise manner.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

7.3 Committee Meetings

GENERAL

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met during the summer and winter when the Legislature has not been in session. All meetings, with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports, are open to the public.

WITNESSES

Most Committee meetings deal with those aspects of the operations of government ministries and Crown agencies related to assessing the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a deputy minister, usually accompanied by senior ministry officials, appears as a witness to answer questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, ministers themselves are very rarely called as witnesses. When the Committee is reviewing Crown agencies, the chief executive officer, and at times the chairman of the board, appear as witnesses. They are usually accompanied by senior agency staff.

MEETINGS HELD

Reference was made in our 1984 Report (section 7.3) to Committee meetings held during the Third and Fourth Sessions of the Thirty-Second Parliament, up to September, 1984.

Upon the return of the Legislature in the fall of 1984, the Committee held eight meetings during the months of October to December.

One meeting was spent reviewing a report relating to a motion on a subdivision agreement between the Ministry of Municipal Affairs and Housing, and Rygate Homes Inc.

Discussions during other meetings included the Committee's October, 1984 visit to London, England, section 4.2 of the Provincial Auditor's 1983 annual Report on the Accountability of Crown Agencies, and the briefing procedures in connection with the Auditor's 1984 Report.

Two of the meetings were held in camera. At one, members were briefed on the content of the Provincial Auditor's 1984 annual Report. The other was spent reviewing material for the Committee's 1984 Report to the Legislature.

The Committee received authorization from the Assembly to meet during the recess after the Fourth Session of the Thirty-Second Parliament in order to consider its 1984 annual Report, to review the Provincial Auditor's reports on Algonquin College, and to deal with other matters within its terms of reference.

Nine meetings were held in February, 1985. During this time, the Committee's 1984 Report to the Legislature was completed, a motion regarding the briefing procedures in connection with the Provincial Auditor's 1985 Report was passed (see section 6.5) and the Auditor's reports on Algonquin College were reviewed.

The activities of this Public Accounts Committee ended with the dissolution of the Legislature on March 25, 1985.

The new Committee, constituted at the commencement of the First Session of the Thirty-Third Parliament, held its organizational meeting on July 11th, a day before the Legislature adjourned for summer recess.

At a further meeting in August 1985, approval was given to a motion concerning the financing arrangements for the construction of the domed stadium (see following subsection). The Committee held one in camera meeting and five public meetings in September dealing with our report and hearing witnesses on this subject.

MOTIONS PASSED AT MEETINGS

Small Business Development Corporations

At its November 22, 1984 meeting, the Committee passed a motion relating to the Ministry of Revenue's auditing procedures used for the SBDC (Small Business Development Corporation) Program. The motion required the Provincial Auditor to meet with Ministry officials and report to the Committee on the state of these procedures. It also called upon the Deputy Minister of Revenue to appear before the Committee to explain what new auditing procedures had been implemented as a result of the recommendations of a Clarkson Gordon report entitled An Evaluation of the Small Business Development Corporation Program, February, 1984.

Our report arising from the Committee's motion was designed to determine the current status of SBDC audit procedures, in particular the extent to which Clarkson Gordon's recommendations had been implemented.

The SBDC report was tabled at the Committee's July 11, 1985 meeting, and may be reviewed by the Committee in the fall.

Annual Report Briefings

The Committee passed a motion at its February 19, 1985 meeting recommending briefing procedures in connection with the 1985 Provincial Auditor's annual Report. This matter is fully covered in section 6.5 of this Report.

Domed Stadium Finances

On August 15, 1985, the Committee passed a motion requiring the Provincial Auditor to investigate the financing arrangements for the construction of the domed stadium. The motion instructed the Auditor to examine: the possibility of involving additional corporate sponsors to the project; whether provincial lottery revenues should be used to support an enterprise generating profit for private companies; exclusive advertising rights and preferred supplier status versus tendering and competitive bidding; the implications of the public sector assuming full liability of all cost overruns; conflict of interest rules in the awarding of contracts; and potential areas for cost overruns, with recommendations on ways to lessen the possibility of such overruns. The motion further stated that the Auditor not be restricted in investigating any aspect of the financing arrangements he considers to be of importance to the public interest.

A preliminary report on the domed stadium was submitted on September 12, 1985 to assist the Committee during its public hearings in the latter part of September. The Committee will be dealing with this subject further during its fall sittings.

STATUS OF PREVIOUS MOTIONS

Finances of Ontario Hydro

As noted in section 7.3 of our 1984 Report, the Provincial Auditor, acting on Committee motions passed in 1983, prepared three reports on certain aspects of the finances of Ontario Hydro. These were reviewed by the Committee in the fall of 1984. The results of the Committee's examination were included in its 1984 Report to the Legislature.

The Committee recommended the implementation of certain mechanisms to ensure Hydro's accountability to the Legislature. These included: a pre-Budget examination of Ontario Hydro's finances; an annual review of Hydro's borrowing requirements and its impact on the government's credit rating and contingent liabilities; and/or the re-establishment of a select committee of the Legislature to investigate the affairs of Ontario Hydro.

Reference should be made to Exhibit 10 of this Report for the current status of this recommendation.

Algonquin Community College

Section 7.3 of our 1984 Report referred to a motion passed by the Committee on May 17, 1984 directing the Provincial Auditor to investigate and review the financial management and administrative systems of Algonquin College, and to report to the Committee on the efficiency, effectiveness and economy of these systems.

The Provincial Auditor subsequently prepared two reports on Algonquin College (see section 3.6). The Committee reviewed these reports in February 1985. A summary of this review may be included in the Committee's 1985 Report to the Legislature.

Ministry of Agriculture and Food — Contracts

Section 7.3 of our 1984 annual Report noted that, as a result of a motion passed on April 5, 1984, the Deputy Minister of Agriculture and Food appeared before the Committee on May 3, 1984 to explain the Ministry's apparent lack of compliance with the Ontario Manual of Administration.

Details of this meeting and of the issues involved were included in the Committee's 1984 Report. No recommendations were made on this matter.

Ministry of Municipal Affairs and Housing — Subdivision Agreement with Rygate Homes Inc.

Pursuant to a motion passed on May 31, 1984, (described in section 7.3 of our 1984 annual Report), the Provincial Auditor's Rygate report was

tabled with the Committee on November 15, 1984. This report dealt with the approval and administration of the subdivision agreements between the Ministry of Municipal Affairs and Housing, and Rygate Homes Inc., for the development of Forest Glen Subdivision in the unorganized Township of Striker.

The Committee reviewed the report on November 22, 1984. Summing up this matter in its 1984 Report, the Committee commented that the Ministry of Municipal Affairs and Housing had instituted procedures for ensuring proper administrative processes in future, and noted that the Provincial Auditor would monitor these procedures.

7.4 Other Committee Activities

CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES

The seventh annual meeting of the Council was held in Whitehorse, Yukon, from July 7 to 10, 1985. These annual meetings, attended by public accounts committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information amongst the members.

The issues reviewed included case studies on matters dealt with by the various committees during the past year, and were followed by round-table discussions. Also discussed was the political makeup of committees, and how this affects the analysis of issues.

OTHER

As part of its agenda, the Committee scheduled a trip to London, England in October 1984. The participants included representatives of the Committee, as well as the Provincial Auditor and the Committee's Clerk and Research Officer. The Committee reviewed the functions of the National Audit Office, the Audit Commission for Local Authorities, and the Public Accounts Committee. It also examined the issue of privatization of state-owned enterprises.

7.5 Reports of the Committee

GENERAL

The Committee's annual Report is normally tabled with the Legislature in December of each year. The Report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of the Committee's comments and recommendations. Occasionally, the Committee also issues interim reports.

The tabling of the Report in the Legislature is followed by a

scheduled debate. This provides Committee members with the opportunity to once again bring items of concern to the Legislature's attention. Additionally, it gives Cabinet Ministers the opportunity to comment on matters that have been dealt with by the Committee.

1984 REPORT

The Committee's 1984 Report to the Legislature was tabled with the Clerk of the House on March 5, 1985, after the Fourth Session of the Thirty-Second Parliament. The debate normally following the tabling did not occur since the Legislature was dissolved on March 25, 1985 for the election of a new Legislative Assembly.

At the time of completion of this Report, the newly elected Assembly had yet to debate the Committee's 1984 Report.

Exhibit 10 of this Report summarizes and provides the current status of all recommendations contained in the Committee's 1984 Report. It also provides an update on the status of recommendations contained in previous Committee Reports, which were listed as unresolved in Exhibit 10 of our last year's Report.

EXHIBITS

1. Sections of the Audit Act Relevant to the Responsibilities of the Provincial Auditor.
2. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1985.
3. Management Board Orders — Amounts Authorized and Expended Thereunder, Year Ended March 31, 1985.
4. Statutory Appropriations — Amounts Provided and Expended Thereunder, Year Ended March 31, 1985.

Office of the Provincial Auditor:

5. Organization Chart.
6. Ministry Audits and Special Reviews, Year Ended March 31, 1985.
7. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1985.
8. Audited Statement of Expenditure, Year Ended March 31, 1985.
9. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.
10. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly.

EXHIBIT 1

SECTIONS OF THE AUDIT ACT RELEVANT TO THE RESPONSIBILITIES OF THE PROVINCIAL AUDITOR

KEY DEFINITIONS

Agency of the Crown

1.(a) "agency of the Crown" means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

(i) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,

(ii) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,

(iii) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or

(iv) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that the Crown Agency Act states is not affected by that Act or that any other Act states is not a Crown Agency within the meaning or for the purposes of the Crown Agency Act.

Crown Controlled Corporation

1.(e) "Crown controlled corporation" means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council.

Inspection Audit

1.(g) "inspection audit" means an examination of accounting records.

EXAMINATION OF ACCOUNTS

Consolidated Revenue Fund

9.(1) The Auditor shall audit, on behalf of the Assembly and in such

manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.

Agencies of the Crown and Crown Controlled Corporations

9.(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, notwithstanding any provision of any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.

9.(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,

(a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation;

(b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request;

(c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.

9.(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary.

SUBMISSION OF ANNUAL AND SPECIAL REPORTS

12.(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in

each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.

CONTENT OF ANNUAL REPORT

12.(2) In his annual report in respect of each fiscal year, the Auditor shall report on,

(a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;

(b) the examination of accounts of receipts and disbursements of public money;

(c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;

(d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;

(e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;

(f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matters related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,

(i) accounts were not properly kept or public money was not fully accounted for,

(ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the

assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,

(iii) money was expended other than for the purposes for which it was appropriated,

(iv) money was expended without due regard to economy and efficiency, or

(v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.

INSPECTION AUDITS

13.(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

ASSISTANCE TO STANDING PUBLIC ACCOUNTS COMMITTEE

16. At the request of the Standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

(a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and

(b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him in respect of the Public Accounts by a resolution of the committee.

SPECIAL ASSIGNMENTS

17. The Auditor shall perform such special assignments as may be required by the Assembly, the Standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor.

RELATIONSHIP WITH BOARD OF INTERNAL ECONOMY

28. A person or persons, not employed by the Crown or the Office of the Assembly, licensed under the *Public Accountancy Act* and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next ensuing session.

29.(1) The Auditor shall present annually to the Board estimates of the sums of money that will be required for the purposes of this Act.

29.(2) The Board shall review and may alter as it considers proper the estimates presented by the Auditor, and the chairman of the Board shall cause the estimates as altered by the Board to be laid before the Assembly and the Assembly shall refer the estimates laid before it to a committee of the Assembly for review.

29.(3) Notice of meetings of the Board to review or alter the estimates presented by the Auditor shall be given to the chairman and the vice-chairman of the standing Public Accounts Committee of the Assembly and the chairman and the vice-chairman may attend at the review of the estimates by the Board.

EXHIBIT 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Accounting Basis

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed primarily to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province, under which the financial transactions of government ministries are recorded and displayed as Consolidated Revenue Fund cash inflows and outflows, best accommodate reporting to the Legislature.

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended. Cash inflows, on the other hand, are closed at March 31 for cash received or in transit. With respect to provincial crown corporations, agencies, boards and commissions, the financial statements of the Consolidated Revenue Fund reflect only the extent to which their operations have been financed or have contributed to the Fund for the year.

The accounting of the Province's transactions is recorded under three categories: Budgetary transactions, Non-budgetary transactions and Financing transactions.

Budgetary Transactions

Budgetary transactions are operational activities of the Government.

Revenue

Includes revenue raised through taxation, premiums, fees, licences and permits, payments from the Federal Government under fiscal arrangements and shared-cost programs, and income from investments.

Expenditures

Expenditures on government programs include payments for goods and services, interest on the public debt, salaries, transfer payments to individuals, municipalities and institutions, subsidies and grants, and the acquisition and creation of fixed assets.

Non-Budgetary Transactions

Non-budgetary transactions are the lending, investment and trust administration activities of the Government, including loans, advances and investments, pension and related adjustment funds and other trust and special purpose accounts. These transactions affect only asset and liability accounts.

Loans, Advances and Investments

This category includes the government lending and investment activity in various crown corporations, agencies and municipalities. All of these loans and advances are repayable or represent equity holdings supported by the assets of the corporations.

Pension and Related Adjustment Funds

Pension and related adjustment funds consist of all employee and employer contributions and interest earnings of the Public Service Superannuation Fund, the Superannuation Adjustment Fund, the Legislative Assembly Retirement Allowances Account, the Provincial Judges Benefits Fund, and the Ontario Provincial Police Supplementary Benefit Account and payments made from these funds.

Trust and Special Purpose Accounts

Trust and special purpose accounts arise from the Province's trust administration activity for both government ministries and the private sector.

Financing Transactions

Financing transactions are the borrowing and repayment activities of the Government, and are of two types.

Debt transactions

Debt transactions are the borrowing and repayment transactions which include obligations issued for both non-public and public sources of funds.

Ontario Hydro transactions

Ontario Hydro transactions relate to amounts borrowed by the Province on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for bonds with like terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs, are the result of a financing alternative and are not a part of the Province's own budget plan, they are classified separately.

Assets, Net Debt and Liabilities

Assets

Advances to Ontario Hydro represent the face value of funds advanced to Ontario Hydro, stated in Canadian dollars using the exchange rate in effect on the reporting date. All other assets are claims by the Consolidated Revenue Fund on other parties and have been created by cash transactions. As indicated in the Notes to the financial statements, under current government policy, the funds required to repay some of the advances and loans included as assets are effectively provided out of provincial expenditure appropriations. The liabilities are claims by other parties on the Consolidated Revenue Fund. Since expenditures on fixed assets do not represent financial claims on other parties and are not considered to differ from any other service to the public, they are not reported as assets but are expensed as budgetary items in the year of acquisition.

Net debt

The net debt of the Province is the excess of liabilities over financial assets, representing the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in net debt is the amount by which budgetary revenues exceed or are less than budgetary expenditures.

Liabilities

Funded debt

Funded debt comprises obligations that have a specified term to maturity and are secured by debt instruments. Included are debentures, notes and treasury bills which are recorded at the face value of the debt instrument, or in the case of the foreign currency denominated debt, at the Canadian dollar equivalent. Discount, premium and commission expenses are treated as current year budgetary transactions. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities

Other liabilities include pension and related adjustment funds, deposits with the Province of Ontario Savings Office and trust and special purpose accounts as described under Non-budgetary transactions.

Debentures and notes issued for Ontario Hydro are stated in Canadian dollars using the exchange rate in effect on the reporting date.

Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer

of Ontario and material claims against the Crown. The guarantees denominated in foreign currencies, are translated to Canadian dollars at year end rates of exchange.

Foreign Currency Translation

Commencing in fiscal year 1984-85, proceeds and retirements of loans denominated in foreign currencies are recorded as Financing transactions at the Canadian dollar equivalent using the rate of exchange prevailing on the date of the transaction. Debt payable and contingent liabilities are translated to Canadian dollars at year end rates of exchange.

In the case of outstanding debt issued on behalf of Ontario Hydro, the offsetting advances to Ontario Hydro are similarly translated at year end rates of exchange and, therefore, there is no exchange gain or loss to be recorded. In the case of outstanding debt incurred for provincial purposes, exchange gains or losses are recorded as Budgetary transactions.

Prior to 1984-85, proceeds and retirements of loans were recorded as Financing transactions, at par in the case of U.S. currency and at the Canadian dollar equivalent translated at the exchange rate in effect at the time of issue for other foreign currencies. Any resulting exchange gains or losses on debt incurred for provincial purposes were recorded as Budgetary transactions when realized. Contingent liabilities were translated at the rates of exchange at the time of issue except for amounts maturing within one year from the statement date, which were translated at the year end rates of exchange.

STATEMENT OF FINANCIAL POSITION

as at March 31, 1985
($ millions)

	1985	1984
Assets		
Cash and temporary investments (Note 1)	2,126	1,738
Advances and investments — corporations, boards and commissions (Note 2)	3,777	3,992
Investments in water treatment and waste control facilities (at cost less recoveries) (Note 3)	1,075	1,093
Loans to municipalities	331	348
Other loans and investments (Note 4)	145	161
	7,454	7,332
Advances to Ontario Hydro, secured by bonds (Notes 5 & 10)	8,206	7,487
Total financial assets	15,660	14,819
Net Debt	22,848	20,182
	38,508	35,001
Liabilities		
Funded debt		
Debentures and notes for provincial purposes (Note 6)	23,943	21,853
Treasury bills	650	650
	24,593	22,503
Pension and related adjustment funds (Note 7)	4,708	4,093
Deposits with the Province of Ontario Savings Office	655	687
Trust and special purpose accounts	346	231
Total liabilities for provincial purposes	30,302	27,514
Debentures and notes issued for Ontario Hydro (Notes 6 & 10)	8,206	7,487
	38,508	35,001
Contingent liabilities (Note 8)	14,220	12,711

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

Approved on behalf of the Ministry of Treasury and Economics:

B.A. SMITH, Deputy Treasurer of Ontario and Deputy Minister of Economics

D.S. McCOLL, Assistant Deputy Minister, Office of the Treasury

STATEMENT OF CONSOLIDATED REVENUE FUND TRANSACTIONS

for the year ended March 31, 1985
($ millions)

	Budget 1985		Actual 1985		Actual 1984	
Budgetary Transactions						
Revenue	23,476		23,765		21,313	
Expenditure	26,359		26,431		24,553	
Budgetary deficit		2,883		2,666		3,240
Non-Budgetary Transactions (net)						
Loans, advances and investments	134		266		273	
Pension and related adjustment funds	606		615		562	
Trust and special purpose accounts	104		83		116	
Non-budgetary transactions (net)		844		964		951
Net Cash Requirements		2,039		1,702		2,289
Financing						
Debt Transactions						
Proceeds of loans net of retirements		2,073		2,090		2,860
Ontario Hydro Transactions (Note 10)						
Net proceeds of loans and foreign exchange differential		719		429		
Related advances, interest, foreign exchange differential and recoveries		(719)		(429)		
Increase in cash and temporary investments		34		388		571
Total Financing		2,039		1,702		2,289

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

STATEMENT OF BUDGETARY REVENUE

for the year ended March 31, 1985
($ millions)

	Budget 1985	Actual 1985	Actual 1984
Taxation			
Personal Income Tax	6,952	6,253	5,994
Retail Sales Tax	4,239	4,426	3,876
Corporations Tax	1,942	2,248	1,583
Gasoline Tax	976	961	932
Tobacco Tax	583	583	542
Fuel Tax	228	225	212
Land Transfer Tax	141	139	132
Race Tracks Tax	63	61	62
Mining Profits Tax	45	65	33
Succession Duty	6	6	6
Public Utilities Income Tax	13	51	(13)
Other	5	5	4
	15,193	15,023	13,363
Other Revenue			
Premiums — Ontario Health Insurance Plan	1,597	1,586	1,479
Profits from Crown Corporations and Boards			
Liquor Control Board of Ontario	554	602	520
Ontario Lottery Corporation	118	122	118
Vehicle registration fees	329	329	287
Liquor Licence Board of Ontario revenues	251	253	236
Other fees and licences	228	223	215
Fines and Penalties	96	85	103
Utility Service Charges	92	111	97
Royalties	146	136	83
Sales and Rentals	78	80	56
Other	97	132	141
	3,586	3,659	3,335
Government of Canada			
Established Programs Financing			
Cash Contribution	2,545	2,772	2,548
Extended Health Care Services	355	359	333
Canada Assistance Plan	909	938	862
National Training Agreement	156	168	157
Other	292	341	261
	4,257	4,578	4,161
Interest on Loans, Advances and Investments	440	505	454
Total Budgetary Revenue	23,476	23,765	21,313

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

STATEMENT OF BUDGETARY EXPENDITURE

for the year ended March 31, 1985
($ millions)

	Budget 1985	Actual 1985	Actual 1984
Social Development Policy Field			
Health	8,242	8,340	7,582
Education	3,223	3,219	3,087
Community and Social Services	2,540	2,605	2,402
Colleges and Universities	2,103	2,101	2,035
Citizenship and Culture	172	184	205
Social Development Policy	12	11	13
	16,292	16,460	15,324
Resources Development Policy Field			
Transportation and Communications	1,539	1,587	1,541
Municipal Affairs and Housing	1,022	1,019	1,024
Natural Resources	422	437	408
Agriculture and Food	310	306	264
Environment	250	282	254
Tourism and Recreation	123	160	110
Energy	88	80	91
Industry and Trade	78	80	76
Labour	73	74	73
Resources Development Policy	4	3	3
	3,909	4,028	3,844
Justice Policy Field			
Solicitor General	307	309	291
Attorney General	266	278	261
Correctional Services	228	245	226
Consumer and Commercial Relations	120	122	131
Justice Policy	2	1	1
	923	955	910
General Government			
Revenue	637	652	620
Treasury and Economics	863	792	728
Government Services	384	379	367
Northern Affairs	159	158	157
Office of the Assembly	34	37	35
Management Board of Cabinet	18	17	14
Intergovernmental Affairs	8	10	7
Other	21	21	13
	2,124	2,066	1,941
Public Debt Interest	2,953	2,922	2,534
Contingency Fund (Note 11)	158		
Total Budgetary Expenditure	26,359	26,431	24,553

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

STATEMENT OF NON-BUDGETARY TRANSACTIONS

for the year ended March 31, 1985
($ millions)

	Budget 1985	Actual 1985	Actual 1984
Loans, Advances and Investments			
Repayments by:			
Corporations, boards and commissions			
Crop Insurance Commission of Ontario		24	11
Development Corporations	23	41	55
Ontario Education Capital Aid Corporation	98	98	92
Ontario Land Corporation	52	75	75
Ontario Universities Capital Aid Corporation	36	36	34
Other	12	28	28
Municipalities	40	42	43
Water treatment and waste control facilities	55	74	94
Other loans and investments	9	17	17
	325	435	449
Payments to:			
Corporations, boards and commissions			
Development Corporations	63	51	44
Ontario Energy Corporation	28	28	29
Other	10	9	11
Municipalities	30	25	24
Water treatment and waste control facilities	60	56	68
	191	169	176
Net Decrease in Loans, Advances and Investments	134	266	273
Pension and Related Adjustment Funds			
Deposits to:			
Public Service Superannuation Fund	590	565	513
Superannuation Adjustment Fund	230	248	219
Other	4	31	4
	824	844	736
Payments from:			
Public Service Superannuation Fund	150	164	124
Superannuation Adjustment Fund	67	63	49
Other	1	2	1
	218	229	174
Net Increase in Pension and Related Adjustment Funds	606	615	562
Trust and Special Purpose Accounts			
Deposits to:			
Interprovincial Lotteries Trust Fund	95	128	99
Motor Vehicle Accident Claims Fund	9	11	10
Other	8	13	27
	112	152	136

STATEMENT OF NON-BUDGETARY TRANSACTIONS (cont'd)

for the year ended March 31, 1985
($ millions)

	Budget 1985	Actual 1985	Actual 1984
Payments from:			
Interprovincial Lotteries Trust Fund	22	21	12
Motor Vehicle Accident Claims Fund	8	9	14
Province of Ontario Savings Office — net decrease (increase)	(25)	32	(13)
Other	3	7	7
	8	69	20
Net Increase in Trust and Special Purpose Accounts	104	83	116
Total Non-Budgetary Transactions	844	964	951

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

STATEMENT OF DEBT TRANSACTIONS

for the year ended March 31, 1985
($ millions)

	Budget 1985	Actual 1985	Actual 1984
Proceeds of Loans			
Non-public			
Canada Pension Plan Investment Fund	1,220	1,134	1,201
Teachers' Superannuation Fund	960	1,065	786
Public			
Debentures and notes			500
Treasury bills (net)			650
Total Proceeds of Loans	2,180	2,199	3,137
Retirements of Loans			
Non-public	11	11	10
Public			
Debentures and notes	96	98	267
Total Retirements of Loans	107	109	277
Debt Transactions (net)	2,073	2,090	2,860

STATEMENT OF ONTARIO HYDRO TRANSACTIONS

for the year ended March 31, 1985
($ millions)

	1985	1984
Proceeds of loans (public)	319	368
Retirements of loans (public)	(80)	(160)
Net proceeds (Note 10)	239	208
Foreign exchange differential (Note 6)	480	221
Net increase in debentures and notes for Ontario Hydro purposes	719	429
Related advances, interest and recoveries (Note 10)		
Advances to Ontario Hydro	319	368
Interest	874	800
Recovery of interest and loan retirements	(954)	(960)
Net advances	239	208
Foreign exchange differential (Note 6)	480	221
Related advances, interest, foreign exchange differential and recoveries (net)	719	429

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

(all figures in millions of dollars)

1. Cash and Temporary Investments

Temporary investments consist mainly of marketable short-term securities issued by Canadian chartered banks and provincial and federal governments and are recorded at cost. Also included are $28 million (1984 $36 million) of debentures and bonds issued or guaranteed by the Province, which at March 31, 1985 had a market value of $24 million (1984 $28 million).

2. Advances and Investments — Corporations, Boards and Commissions

	1985	1984
Ontario Universities Capital Aid Corporation	$1,012	$1,048
Ontario Land Corporation	872	943
Ontario Education Capital Aid Corporation	836	934
Ontario Energy Corporation	407	379
Development Corporations	273	263
Ontario Housing Corporation	183	191
Other	194	234
	$3,777	$3,992

The Ontario Universities Capital Aid Corporation received advances from the Province until March 31, 1978 to purchase bonds or debentures issued by provincial universities, colleges, the Art Gallery of Ontario, the Royal Ontario Museum and municipalities on behalf of public libraries for approved capital construction projects. The securities held by the Corporation are the obligations of the issuing institutions. Effective April 1, 1978 the loan program was replaced by grants from the Province to the institutions. During the fiscal year ending March 31, 1985, $111 million (1984 $111 million) was included in these grants from the Province to cover the amounts of principal and interest due to the Corporation from institutions other than municipalities. The Corporation has continued to administer the repayment of outstanding loans.

The Ontario Land Corporation has received advances from the Province for the acquisition and development of land and for the financing of mortgages and loans. Of the total advances outstanding, $395 million (1984 $398 million) is non-interest bearing and has been used to finance land holdings.

The Ontario Education Capital Aid Corporation received advances from the Province until March 31, 1980 to purchase bonds or debentures issued by school boards for capital expansion programs. The securities held by the Corporation are the obligations of the individual school boards. Effective April 1, 1980 the loan program was replaced by direct grants from the Province to the school boards. Under the support arrangements for the repayment of these advances, the Province has given grants, currently averaging 75% of the approved debt charges, to local school boards. The Corporation has continued to administer the repayments of outstanding loans.

The Ontario Energy Corporation was established to invest and participate in energy related projects. The Province has made loans to and investments in the Corporation, including a $325 million non-interest bearing demand loan advanced in 1981 to finance one-half of the purchase price for 25% of the common shares of Suncor Inc. by Ontario Energy Resources Limited, a wholly owned subsidiary of the Ontario Energy Corporation.

The Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has an equity investment of $7 million in the Corporations and has advanced all funding for their lending programs. Through its budgetary expenditures, the Province also transfers to the Corporations

an amount to defray the costs of: all administrative expenses, loans made at low interest rates, certain loan forgiveness, honouring guarantees, and loan and loss write-offs. In 1985 these transfers amounted to $27 million (1984 $27 million).

The Ontario Housing Corporation plans, constructs and manages residential housing projects. Financing is provided by the Province and the Canada Mortgage and Housing Corporation.

3. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities. Agreements covering $991 million of the investment are for provincially-owned projects which are subject to service rate billings. The proceeds from billings are used to amortize the investment over periods of up to forty years, to pay for operating costs and to provide a return on the investment. Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds, which are included in trust and special purpose accounts was $47 million at March 31, 1985 (1984 $53 million). Since 1978-79, the Province has changed its policy and is phasing out investments in favour of assisting municipalities by direct grants.

4. Other Loans and Investments

Included in other loans and investments are Ministry of Health capital construction loans to public hospitals amounting to $132 million (1984 $148 million). During the current fiscal year, the Province made grants of $10 million (1984 $11 million) to assist public hospitals in meeting principal and interest payments. No new loans have been made since 1978 when the Ministry changed its public hospitals capital financial support program from loans to grants.

5. Advances to Ontario Hydro

The Province has advanced funds to Ontario Hydro, secured by bonds with like terms and conditions to the securities issued by the Province on behalf of Ontario Hydro. The bonds consist of U.S. $5,272 million (1984 U.S. $5,082 million), and Canadian $1,000 million (1984 Canadian $1,000 million) with respect to Canada Pension Plan funds. At March 31, 1985 bonds denominated in U.S. dollars are recorded at $7,206 million (1984 $6,487 million), the Canadian dollar equivalent using the exchange rate in effect at March 31.

6. Debentures and Notes

Debentures and notes payable, for Provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of maturity in the following tables.

FOR PROVINCIAL PURPOSES

Years of Maturity March 31	1985	1984
1985	$	$ 106
1986	215	215
1987	346	346
1988	776	776
1989	919	919
1990	453	
1-5 years	2,709	2,362
6-10 years	3,790	3,382
11-15 years	6,780	5,780
16-20 years	8,611	8,512
21-25 years	1,917	1,670

26-30 years	69	66
31-35 years	64	71
36-40 years	3	10
	$23,943	$21,853

FOR ONTARIO HYDRO

Years of Maturity March 31	Canadian	1985 United States	Total	1984 Total
1986	$	$ 136	$ 136	$ 128
1987				
1988		273	273	255
1989				
1990		274	274	
1-5 years		683	683	383
6-10 years		1,208	1,208	1,066
11-15 years		542	542	332
16-20 years	1,000	1,067	2,067	1,762
21-25 years		2,630	2,630	2,548
26-30 years		1,076	1,076	1,396
	$1,000	$7,206	$8,206	$7,487

The U.S. dollar debenture liability has been recorded at the Canadian dollar equivalent using the exchange rate in effect at March 31.

The foreign exchange differential of $480 million (1984 $221 million), in the Statement of Ontario Hydro transactions, consists of:

- $460 million (1984 $210 million) attributable to the revaluation of the liability at the end of the previous fiscal year using the exchange rate in effect at March 31, 1985; and
- $20 million (1984 $11 million) attributable to the revaluation of the in-year transactions using the exchange rate in effect at March 31, 1985.

As explained in Note 5, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

7. Pension and Related Adjustment Funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related adjustment funds and accounts. The amounts recorded by the Province are essentially the sole assets of these plans.

	1985	1984
Public Service Superannuation Fund	$3,554	$3,152
Superannuation Adjustment Fund	1,099	915
Legislative Assembly Retirement Allowances Account	29	26
Provincial Judges Benefits Fund	25	
Ontario Provincial Police Supplementary Benefit Account	1	
	$4,708	$4,093

Based on the latest actuarial report as at December 31, 1982, the Public Service Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of $83 million, upon which an interest contribution of $7 million is required to be credited annually in accordance with the Pension Benefits Act.

2. Residual unfunded liabilities of $38 million which are required to be amortized by annual payments of $7 million until January 1, 1992.

As at March 31, 1985, the Province had made all scheduled payments.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1984, revealed a surplus of $777 thousand.

8. Contingent Liabilities

	1985	1984
Obligations guaranteed by the Province:		
Debentures, bonds and notes Ontario Hydro	$13,430	$12,044
Bank loans guaranteed		
Corporations and individuals through various government programs	251	209
Other guarantees		
Corporations	534	453
Provincial crown agencies	5	5
	$14,220	$12,711

Claims against the Crown:

There are four claims outstanding over $50 million each arising from legal action either in progress or threatened against the Crown in respect of breach of contract, damages to persons and property and like items. The likely cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

9. Teachers' Superannuation Fund

Through budgetary expenditure, the Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund. Further, the Province is committed to paying any deficiency in the Fund. The Fund is administered by the Teachers' Superannuation Commission. Based on the latest actuarial report as at December 31, 1981, the Teachers' Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of $328 million upon which an interest contribution of $23 million is required to be credited annually in accordance with the Pension Benefits Act.

2. Residual unfunded liabilities of $105 million which are required to be amortized by annual payments of $16 million until December 31, 1990.

As at March 31, 1985, the Province had made all scheduled payments.

10. Change in Accounting Policy

As described in the Summary of Significant Accounting Policies, a change in accounting policy on foreign currency translation took place during 1984-85. This reflects changes which have occurred in the relationship among currencies over time and is intended to produce a more representative value of the assets and liabilities at the statement date. This change does not

significantly impact on the operations. Previous year's balances and transactions have been restated to correspond with this policy.

11. Budget Figures

The comparative budget figures in the financial statements are from 1984 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on May 15, 1984.

The Contingency Fund budget figure in the Statement of Budgetary Expenditure represents a provision for the cost of salary and employee benefit revisions likely to be approved in the fiscal year. These revisions when paid, however, are charged to each ministry's appropriations.

12. Comparative Figures

The 1984 comparative figures have been reclassified where necessary to conform with the 1985 financial statement presentation.

PROVINCIAL AUDITOR'S OPINION

I have examined the statement of financial position of the Province of Ontario as at March 31, 1985 and the statements of consolidated revenue fund transactions, budgetary revenue, budgetary expenditure, non-budgetary transactions, debt transactions and Ontario Hydro transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Province as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies set out in the Summary of Significant Accounting Policies on page 1-2 of Volume 1 of the Public Accounts. Further, in my opinion such policies, except for the change in accounting for foreign currency translation as described in the Summary of Significant Accounting Policies and note 10, have been applied on a basis consistent with that of the preceding year.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly.

D.F. Archer, F.C.A.,
Provincial Auditor.

Toronto, August 30, 1985.

EXHIBIT 3

MANAGEMENT BOARD ORDERS

Amounts Authorized and Expended Thereunder
Year Ended March 31, 1985

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Agriculture and Food		
	Ministry Administration Program		
Mar. 18, 1985	Financial and Office Services	269,900	246,147
Mar. 18, 1985	Personnel Services	101,000	62,715
Mar. 18, 1985	Information Services	412,100	379,336
	Agricultural Marketing and Development Program		
Mar. 12, 1985	Marketing and Sector Support Payments	7,500,000	7,500,000
Mar. 18, 1985	Marketing and Sector Support Payments	1,201,900	325,099
Mar. 18, 1985	Foodland Ontario Promotion	250,000	189,384
Mar. 18, 1985	Quality Standards	866,100	830,446
Mar. 18, 1985	Land Preservation and Improvement	175,000	—
	Agricultural Technology and Field Services Program		
Mar. 18, 1985	Colleges of Agricultural Technology — Education and Research	960,100	903,649
Mar. 18, 1985	Ontario Agricultural Museum and Other Education	537,800	346,708
Mar. 18, 1985	Horticultural Research Institute of Ontario, Other Research and Energy Programs	815,100	335,459
Mar. 18, 1985	Advisory Services	2,544,800	1,765,521
		15,633,800	12,884,464
	Ministry of the Attorney General		
	Law Officer of the Crown Program		
Mar. 12, 1985	Attorney General	26,000	26,000
Apr. 15, 1985	Attorney General	25,000	18,653
Mar. 12, 1985	Policy Development	195,000	152,221
Nov. 20, 1984	Royal Commissions	601,000	601,000
Feb. 26, 1985	Royal Commissions	872,000	677,375
Mar. 12, 1985	Countermeasures Program — Drinking/Driving	757,000	717,921
	Administrative Services Program		
Mar. 12, 1985	Financial Services	50,000	50,000
Apr. 15, 1985	Financial Services	110,000	110,000
Mar. 12, 1985	Personnel Services	155,000	115,700
Mar. 12, 1985	Information Services	325,000	325,000
Apr. 15, 1985	Information Services	45,000	44,989
Mar. 12, 1985	Analysis and Planning	20,000	—
Apr. 15, 1985	Analysis and Planning	5,000	—
Mar. 12, 1985	Audit Services	65,000	49,709

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of the Attorney General (cont'd)		
	Guardian and Trustee Services Program		
Mar. 12, 1985	Official Guardian	140,000	124,763
Mar. 12, 1985	Public Trustee	230,000	67,202
Mar. 12, 1985	Supreme Court Accountant	17,000	3,063
	Crown Legal Services Program		
Mar. 12, 1985	Criminal Law Division	1,950,000	1,338,649
Mar. 12, 1985	Civil Law Division	200,000	141,184
Mar. 12, 1985	Common Legal Services	35,000	—
	Courts Administration Program		
Mar. 12, 1985	Program Administration	750,000	415,141
Mar. 12, 1985	Supreme Court of Ontario	570,000	424,114
Mar. 12, 1985	County and District Courts	2,175,000	1,875,238
Mar. 12, 1985	Provincial Courts	6,740,000	5,649,394
	Administrative Tribunals Program		
Mar. 12, 1985	Criminal Injuries Compensation Board	205,000	178,652
Mar. 12, 1985	The Metropolitan Police Force Complaints Project	100,000	72,299
		16,363,000	13,178,267
	Cabinet Office		
	Cabinet Office Program		
Feb. 26, 1985	Main Office	13,900	—
Mar. 12, 1985	Main Office	30,000	—
Feb. 26, 1985	Government House Leader	5,000	—
		48,900	—
	Ministry of Citizenship and Culture		
	Ministry Administration Program		
Mar. 5, 1985	Main Office	141,500	138,498
Mar. 26, 1985	Supply and Office Services	196,800	113,889
Mar. 26, 1985	Analysis and Planning	4,000	—
Dec. 18, 1984	Legal Services	66,000	66,000
Mar. 26, 1985	Legal Services	17,000	15,352
	Heritage Conservation Program		
Mar. 5, 1985	Archives	195,200	146,333
	Arts Support Program		
Dec. 18, 1984	Cultural Development and Institutions	3,123,900	3,123,900
Feb. 5, 1985	Cultural Development and Institutions	2,139,300	2,098,528
Mar. 5, 1985	Ontario Science Centre	584,300	582,516
	Citizenship and Multicultural Support Program		
Mar. 5, 1985	Citizenship Development	777,600	771,814
Mar. 26, 1985	Special Services for Native Peoples	25,300	18,731
	Libraries and Community Information Program		
Dec. 18, 1984	Library Services	1,376,600	1,374,640
Mar. 26, 1985	Community Information	32,000	28,123

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Citizenship and Culture (cont'd)		
	Capital Support and Regional Services Program		
Mar. 26, 1985	Community Facilities	3,338,700	3,025,274
Dec. 11, 1984	Regional Services	644,000	642,329
		12,662,200	12,145,927
	Ministry of Colleges and Universities		
	University Support Program		
Apr. 1, 1985	Provincial Support for Universities	218,900	76,934
	Skills Development Program		
Feb. 12, 1985	Ontario Council of Regents	161,500	143,386
Dec. 4, 1984	College Relations Commission	28,000	23,783
	Student Affairs Program		
Apr. 1, 1985	Student Support	348,200	—
		756,600	244,103
	Ministry of Community and Social Services		
	Ministry Administration Program		
Apr. 1, 1985	Financial Services	211,600	63,162
Apr. 1, 1985	Supply and Office Services	40,800	31,213
Apr. 1, 1985	Personnel Services	164,900	133,774
Apr. 1, 1985	Legal Services	66,000	65,935
Apr. 1, 1985	Audit Services	185,900	166,148
Mar. 26, 1985	Systems Development Services	1,294,900	1,286,228
Mar. 5, 1985	Social Assistance Review Board	313,900	221,699
July 24, 1984	Experience '84	35,000	—
	Adults' and Children's Services Program		
Apr. 1, 1985	Policy and Program Development	258,600	204,333
Mar. 26, 1985	Field Administration	549,100	505,322
Mar. 18, 1985	Income Maintenance	64,625,100	61,184,336
Apr. 1, 1985	Adults' Social Services	13,555,600	9,518,200
Apr. 1, 1985	Children's Social Services	10,940,600	7,327,749
Mar. 26, 1985	Developmental Services — Adults and Children	16,832,500	14,602,762
		109,074,500	95,310,861
	Ministry of Consumer and Commercial Relations		
	Ministry Administration Program		
Mar. 26, 1985	Main Office	348,000	346,914
Feb. 19, 1985	Financial Services	618,000	608,594
Mar. 26, 1985	Supplies and Office Services	45,100	44,062
Mar. 26, 1985	Personnel Services	37,800	—
Mar. 26, 1985	Information Services	8,300	—
Jan. 22, 1985	Analysis and Planning	166,400	157,106

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Consumer and Commercial Relations (cont'd)		
	Commercial Standards Program		
Mar. 26, 1985	Securities	181,700	181,630
Mar. 26, 1985	Pension Plans	41,400	40,823
Mar. 26, 1985	Financial Institutions	1,817,800	498,443
Mar. 26, 1985	Companies	93,500	—
Mar. 26, 1985	Business Practices	849,400	775,881
	Technical Standards Program		
Mar. 26, 1985	Pressure Vessels Safety	131,200	87,209
Mar. 26, 1985	Elevating Devices	291,300	290,686
Mar. 26, 1985	Fuels Safety	446,600	439,867
Mar. 26, 1985	Upholstered and Stuffed Articles	5,900	—
	Public Entertainment Standards Program		
Jan. 8, 1985	Regulation of Horse Racing	2,313,800	2,313,800
Mar. 26, 1985	Regulation of Horse Racing	155,000	126,886
Mar. 26, 1985	Theatres, Lotteries and Athletics Commissioner	104,900	66,220
	Property Rights Program		
Mar. 26, 1985	Program Administration	675,900	606,044
Mar. 5, 1985	Real Property Registration	2,400,500	2,367,014
Mar. 26, 1985	Legal and Survey Standards	62,500	58,770
Mar. 26, 1985	Personal Property Registration	340,100	319,094
	Registrar General Program		
Mar. 26, 1985	Registrar General	69,700	20,392
	Liquor Licence Program		
Mar. 26, 1985	Liquor Licence Board of Ontario	74,500	31,470
	Residential Tenancy Program		
Mar. 26, 1985	Residential Tenancy Commission	2,400	1,835
		11,281,700	9,382,740
	Ministry of Correctional Services		
	Ministry Administration Program		
Mar. 18, 1985	Main Office	95,500	41,895
Mar. 18, 1985	Financial Services	347,300	295,160
Mar. 18, 1985	Supply and Office Services	182,200	150,626
Mar. 18, 1985	Personnel Services	147,200	101,648
Mar. 18, 1985	Information Services	15,600	—
Mar. 18, 1985	Analysis and Planning	155,300	111,331
Mar. 18, 1985	Ontario Board of Parole	353,400	268,265
	Institutional Program		
Mar. 18, 1985	Program Administration	238,500	232,790
Mar. 18, 1985	Care, Treatment and Training	14,862,900	14,829,737
Mar. 18, 1985	Institutional Program Support Services	414,600	410,546
Mar. 18, 1985	Institutional Staff Training	8,000	3,805
	Community Program		
Mar. 18, 1985	Probation and Parole Services	1,419,100	1,358,923
		18,239,600	17,805,726

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Education		
	Ministry Administration Program		
Mar. 5, 1985	Main Office	246,000	199,724
Mar. 26, 1985	Supply and Office Services	356,700	347,878
Mar. 26, 1985	Personnel Services	155,600	—
Mar. 26, 1985	Information Services	275,800	275,305
Mar. 26, 1985	Legal Services	3,300	3,036
Mar. 26, 1985	Audit Services	14,300	9,514
	Education Program		
Dec. 18, 1984	Program Administration	1,444,200	1,057,851
Mar. 12, 1985	Blind, Deaf and Demonstration Schools	1,642,900	1,640,088
Feb. 12, 1985	Education Technology	1,142,000	1,142,000
Apr. 1, 1985	Education Technology	84,600	65,186
Apr. 1, 1985	Correspondence Education	183,100	182,197
Dec. 18, 1984	Curriculum	1,045,000	932,635
Mar. 12, 1985	Curriculum	479,300	—
	Services to Education Program		
Mar. 5, 1985	Education Relations Commission	113,200	111,727
		7,186,000	5,967,141
	Ministry of Energy		
	Ministry Administration Program		
Apr. 1, 1985	Main Office	51,200	10,315
Apr. 1, 1985	Administrative Services	519,400	490,530
Apr. 1, 1985	Experience '84	31,000	21,691
	Conventional Energy Program		
Mar. 12, 1985	Program Development	137,300	124,489
	Energy Conservation Program		
Apr. 22, 1985	Buildings	400,000	165,254
	Regulatory Affairs Program		
Apr. 1, 1985	Program Administration	393,300	186,554
Apr. 1, 1985	Natural Gas Regulation	142,700	138,130
		1,674,900	1,136,963
	Ministry of the Environment		
	Ministry Administration Program		
Mar. 12, 1985	Main Office	159,000	127,916
Mar. 18, 1985	Financial Services	28,500	10,871
Mar. 18, 1985	Supply and Office Services	152,000	110,596
Mar. 18, 1985	Information Services	91,800	87,490
Mar. 18, 1985	Audit Services	46,200	17,797
Mar. 18, 1985	Systems Development Services	169,100	168,654
	Environmental Planning Program		
Nov. 27, 1984	Program Administration	124,500	89,694
Mar. 18, 1985	Water Resources	834,000	833,245

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of the Environment (cont'd)		
	Environmental Control Program		
Mar. 18, 1985	Compliance	1,076,000	964,675
Mar. 18, 1985	Environmental Approvals and Technical Support	1,387,600	1,365,690
	Utility Planning and Operations Program		
Mar. 12, 1985	Capital Financing and Revenue	202,000	150,464
Apr. 15, 1985	Project Engineering	26,170,600	25,463,628
Oct. 2, 1984	Ontario Waste Management Corporation	7,000,000	7,000,000
Feb. 12, 1985	Ontario Waste Management Corporation	2,200,000	2,199,859
		39,641,300	38,590,579
	Ministry of Government Services		
	Ministry Administration Program		
Apr. 1, 1985	Supply and Office Services	36,000	11,795
Apr. 1, 1985	Legal Services	29,100	24,889
Jan. 29, 1985	Information Services	123,800	123,800
Apr. 1, 1985	Information Services	37,300	25,918
Apr. 1, 1985	Personnel Services	22,300	20,954
	Accommodation Program		
Apr. 1, 1985	Program Administration	73,200	—
Dec. 11, 1984	Advisory Services	350,000	350,000
Apr. 1, 1985	Advisory Services	121,300	70,622
Feb. 26, 1985	Capital Construction	1,150,000	1,150,000
Apr. 1, 1985	Capital Construction	1,300,000	1,263,648
Apr. 1, 1985	Repairs, Operation and Maintenance	4,136,900	4,095,502
	Human Resource Services Program		
Apr. 1, 1985	Program Administration	24,000	15,000
Apr. 1, 1985	Employee Health and Advisory Services	17,500	7,368
Apr. 1, 1985	Employee Benefits and Data Services	505,000	474,780
	Corporate Services Program		
Apr. 1, 1985	Government Information Services	375,400	176,172
Apr. 1, 1985	General Services	118,200	52,082
	Real Property Program		
Apr. 1, 1985	Program Administration	64,500	60,525
Apr. 1, 1985	Real Property Management	16,600	—
		8,501,100	7,923,055
	Ministry of Health		
	Ministry Administration Program		
Apr. 15, 1985	Financial Services	621,000	517,497
Apr. 15, 1985	Supply and Office Services	674,000	553,971
Apr. 15, 1985	Personnel Services	136,000	124,300
Apr. 15, 1985	Analysis and Planning	33,000	—
Apr. 15, 1985	Legal Services	29,000	24,345

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Health (cont'd)		
	Institutional Health Program		
Apr. 1, 1985	Institutional Care Services	47,213,800	47,213,800
Apr. 15, 1985	Institutional Care Services	12,017,000	11,381,568
Apr. 15, 1985	Laboratory Services	616,000	553,622
	Public and Mental Health Program		
Apr. 15, 1985	Program Administration	3,000	—
Apr. 1, 1985	Mental Health	23,074,300	22,383,571
	Health Insurance Program		
Apr. 15, 1985	Health Insurance and Benefits	41,568,000	41,131,391
		125,985,100	123,884,065
	Ministry of Industry and Trade		
	Ministry Administration Program		
Apr. 1, 1985	Financial Services	40,000	—
Apr. 1, 1985	Supply and Office Services	131,000	112,263
Apr. 1, 1985	Personnel Services	50,200	11,905
Mar. 26, 1985	Legal Services	57,200	44,429
	Industry Program		
Mar. 26, 1985	Industrial Investment	220,000	220,000
Apr. 15, 1985	Industrial Investment	50,000	26,095
Apr. 1, 1985	Domestic Offices	390,000	292,124
	Trade Program		
Apr. 1, 1985	International Marketing	1,090,000	593,671
Apr. 1, 1985	Ontario International Corporation	128,000	79,593
Apr. 1, 1985	International Offices	520,000	395,855
	Ontario Development Corporations Program		
Mar. 26, 1985	Ontario Development Corporation	1,199,500	1,199,500
Apr. 1, 1985	Ontario Development Corporation	3,735,000	3,232,215
Mar. 26, 1985	Northern Ontario Development Corporation	37,300	—
	Innovation and Technology Program		
Apr. 1, 1985	Innovation and Technology Development	110,000	—
		7,758,200	6,207,650
	Ministry of Intergovernmental Affairs		
	Intergovernmental Relations Program		
Nov. 27, 1984	International Relations	810,000	810,000
Mar. 18, 1985	International Relations	140,400	111,913
Oct. 16, 1984	Protocol Services	1,376,100	1,376,100
Jan. 22, 1985	Protocol Services	209,600	209,600
Feb. 26, 1985	Protocol Services	45,000	45,000
Mar. 18, 1985	Protocol Services	222,600	187,957
Apr. 15, 1985	Protocol Services	12,700	—
	French Language Services and Franco-Ontarian Affairs Program		
Mar. 18, 1985	Council for Franco-Ontarian Affairs	21,400	2,706
		2,837,800	2,743,276

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Labour		
	Ministry Administration Program		
Apr. 1, 1985	Main Office	81,700	30,631
Mar. 26, 1985	Financial Services	166,000	128,550
Mar. 26, 1985	Supply and Office Services	571,900	538,272
Feb. 19, 1985	Personnel Services	202,100	177,518
Feb. 19, 1985	Information Services	105,000	99,371
Apr. 1, 1985	Legal Services	50,100	41,951
Apr. 1, 1985	Systems Development Services	72,200	48,532
	Industrial Relations Program		
Mar. 26, 1985	Program Administration	173,400	160,348
Apr. 1, 1985	Conciliation and Mediation Services	235,200	202,846
	Labour Relations Board Program		
Mar. 26, 1985	Labour Relations Board	481,600	481,505
	Occupational Health and Safety Program		
Apr. 1, 1985	Program Administration	411,200	268,408
Apr. 1, 1985	Industrial Health and Safety	193,500	140,784
Apr. 1, 1985	Mining Health and Safety	353,800	290,158
Apr. 1, 1985	Occupational Health	202,800	196,886
	Employment Standards Program		
Mar. 26, 1985	Employment Standards	822,400	723,670
	Human Rights Commission Program		
Apr. 1, 1985	Human Rights Commission	87,300	—
		4,210,200	3,529,430
	Office of the Lieutenant Governor		
	Office of the Lieutenant Governor Program		
Feb. 5, 1985	Office of the Lieutenant Governor	45,000	35,447
	Management Board of Cabinet		
	Government Personnel Services Program		
Mar. 26, 1985	French Language Services	312,600	309,265
	Ministry of Municipal Affairs and Housing		
	Ministry Administration Program		
Apr. 1, 1985	Main Office	168,000	163,216
Apr. 1, 1985	Systems Development Services	57,700	42,987
Apr. 1, 1985	Legal Services	30,000	—
Mar. 12, 1985	Ontario Buildings Services	812,500	812,500
Apr. 1, 1985	Ontario Buildings Services	320,600	83,360
	Community Planning Program		
Apr. 1, 1985	Program Administration	21,000	—
Apr. 1, 1985	Community Renewal	4,375,000	4,344,485
	Community Housing Program		
Apr. 1, 1985	Ontario Housing Corporation	3,292,200	3,178,061
		9,077,000	8,624,609

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Natural Resources		
	Ministry Administration Program		
Jan. 22, 1985	Main Office	786,500	786,500
Mar. 12, 1985	Main Office	1,174,800	1,174,800
Apr. 1, 1985	Main Office	110,400	110,400
Apr. 22, 1985	Main Office	200,000	193,847
Mar. 26, 1985	Personnel Services	144,000	143,625
Mar. 18, 1985	Information Services	298,700	298,700
Apr. 1, 1985	Information Services	160,000	159,727
Apr. 1, 1985	Field Administration	1,417,600	1,406,244
	Lands and Waters Program		
Apr. 1, 1985	Conservation Authorities and Water Management	91,600	91,600
Apr. 22, 1985	Conservation Authorities and Water Management	305,000	287,094
Apr. 1, 1985	Aviation and Fire Management	721,900	542,273
July 10, 1984	Extra Fire Fighting	2,000,000	2,000,000
Oct. 2, 1984	Extra Fire Fighting	1,500,000	1,500,000
Oct. 23, 1984	Extra Fire Fighting	1,000,000	1,000,000
Dec. 18, 1984	Extra Fire Fighting	1,000,000	981,914
Apr. 1, 1985	Land Management	204,600	203,216
	Outdoor Recreation Program		
Apr. 1, 1985	Recreational Areas	621,300	620,448
Apr. 1, 1985	Fish and Wildlife	3,413,600	3,410,854
	Resource Products Program		
Mar. 12, 1985	Mineral Management	4,228,600	4,228,600
Apr. 1, 1985	Mineral Management	261,300	159,592
		19,639,900	19,299,434
	Ministry of Northern Affairs		
	Ministry Administration Program		
Mar. 18, 1985	Main Office	15,000	—
Mar. 18, 1985	Analysis and Planning	10,000	—
Mar. 18, 1985	Information Services	20,000	17,212
Mar. 18, 1985	Financial and Administrative Services	18,000	12,445
	Northern Economic Development Program		
Mar. 18, 1985	Program Administration	102,900	78,242
	Northern Transportation Program		
Apr. 1, 1985	Northern Roads	757,000	638,812
Apr. 1, 1985	Rail and Ferry Services	396,000	396,000
Apr. 15, 1985	Rail and Ferry Services	110,000	109,565
	Northern Community Services and Development Program		
Mar. 18, 1985	Community Services	147,000	145,041
Mar. 12, 1985	Community Development	1,000,000	1,000,000
Apr. 1, 1985	Community Development	1,140,000	1,136,102
		3,715,900	3,533,419

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Office of the Premier		
	Office of the Premier Program		
Feb. 26, 1985	Office of the Premier	118,000	118,000
Mar. 18, 1985	Office of the Premier	171,800	171,800
Apr. 15, 1985	Office of the Premier	70,600	62,316
		360,400	352,116
	Ministry of Revenue		
	Ministry Administration Program		
Mar. 18, 1985	Legal Services	44,500	41,317
Mar. 18, 1985	Audit Services	84,000	40,855
Mar. 18, 1985	Supply and Office Services	211,900	180,785
Mar. 18, 1985	Communications Services	60,800	52,239
Mar. 18, 1985	Systems Development Services	244,800	—
	Tax Revenue and Grants Program		
Mar. 18, 1985	Program Administration	25,800	12,814
Mar. 18, 1985	Tax Appeals	56,700	34,194
Mar. 18, 1985	Special Investigations	37,600	—
Mar. 18, 1985	Taxation Data Centre	242,600	10,204
Mar. 18, 1985	Corporations Tax and Other Taxes	286,000	113,019
Mar. 18, 1985	Retail Sales Tax and Other Taxes	766,500	393,173
Jan. 22, 1985	Guaranteed Income and Tax Grants	14,000,000	14,000,000
Feb. 26, 1985	Guaranteed Income and Tax Grants	5,000,000	3,422,583
Mar. 18, 1985	Guaranteed Income and Tax Grants	263,800	—
	Property Assessment Program		
Mar. 18, 1985	Assessment Field Operations	4,869,400	4,205,462
Mar. 18, 1985	Special Properties	164,600	124,525
Mar. 18, 1985	Data Services and Development	40,500	31,663
		26,399,500	22,662,833
	Social Development Policy		
	Social Development Policy Program		
Apr. 15, 1985	Social Development Services	80,000	33,261
	Ministry of the Solicitor General		
	Ministry Administration Program		
Mar. 12, 1985	Main Office	323,000	207,833
Mar. 12, 1985	Financial Services	72,000	41,107
Mar. 12, 1985	Personnel Services	80,000	—
Mar. 12, 1985	Information Services	80,000	627
Mar. 12, 1985	Analysis and Planning	90,000	60,517
Mar. 12, 1985	Audit Services	9,000	—
	Public Safety Program		
Mar. 12, 1985	Centre of Forensic Sciences	150,000	—

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of the Solicitor General (cont'd)		
	Policing Services Program	40,000	—
Mar. 12, 1985	Ontario Police College	3,000	856
Mar. 12, 1985	Ontario Police Arbitration Commission		
	Ontario Provincial Police Program	130,000	81,225
Mar. 12, 1985	Office of the Commissioner	2,449,000	2,366,097
Mar. 12, 1985	Supply Division	8,861,700	7,019,262
Mar. 12, 1985	Field Operations Division	70,000	—
Mar. 12, 1985	Field Support Division	600,000	534,667
Mar. 12, 1985	Investigation Division	1,000,000	987,185
Mar. 12, 1985	Investigation Support Division	13,957,700	11,299,376
	Ministry of Tourism and Recreation		
	Ministry Administration Program	33,400	21,122
Apr. 15, 1985	Corporate Advertising and Special Projects		
	Tourism Development Program	105,000	105,000
Dec. 4, 1984	Program Administration	10,000	9,630
Apr. 15, 1985	Program Administration	1,300,000	1,300,000
Feb. 19, 1985	Tourism Marketing Development	276,900	276,900
Mar. 18, 1985	Tourism Marketing Development	315,500	315,497
Apr. 15, 1985	Tourism Marketing Development		
	Parks and Attractions Program	97,400	97,400
Mar. 18, 1985	Huronia Historical Parks	17,100	13,370
Apr. 15, 1985	Huronia Historical Parks	142,200	136,509
Mar. 18, 1985	Old Fort William	2,500,000	2,500,000
Dec. 18, 1984	Ontario Place Corporation	671,100	632,173
Mar. 18, 1985	St. Lawrence Parks Commission	151,600	148,393
Mar. 12, 1985	Resort Development	10,023,500	9,826,938
Sept. 4, 1984	Ottawa/Toronto Convention Centres	736,500	—
Apr. 1, 1985	Ottawa/Toronto Convention Centres		
	Recreation, Sports and Fitness Program	11,000	—
Mar. 18, 1985	Program Administration	180,900	154,055
Mar. 18, 1985	Recreation	500,000	500,000
Feb. 19, 1985	Sports and Fitness	110,900	103,162
Mar. 18, 1985	Sports and Fitness		
	Ministry Field Operations Program	2,150,000	2,150,000
Sept. 4, 1984	Ministry Field Operations	1,251,400	1,251,400
Feb. 19, 1985	Ministry Field Operations	838,100	838,100
Mar. 18, 1985	Ministry Field Operations	30,000,000	30,000,000
Mar. 26, 1985	Ministry Field Operations	300,000	201,135
Apr. 15, 1985	Ministry Field Operations	51,722,500	50,580,784

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Transportation and Communications		
	Ministry Administration Program		
Mar. 18, 1985	Main Office	403,000	401,067
Mar. 18, 1985	Financial Services	1,520,500	1,019,997
Mar. 18, 1985	Legal Services	397,600	296,676
Mar. 18, 1985	Personnel Services	673,100	640,312
Mar. 18, 1985	Supply and Office Services	229,000	128,147
Mar. 18, 1985	Audit Services	157,900	157,164
Mar. 18, 1985	Information Services	38,000	—
	Policy Planning and Research Program		
Mar. 18, 1985	Research	333,400	332,579
	Safety and Regulation Program		
Mar. 18, 1985	Program Administration	25,600	—
Mar. 5, 1985	Licensing	4,585,800	4,585,800
Mar. 18, 1985	Licensing	270,900	263,534
Mar. 18, 1985	Examination, Inspection and Enforcement	555,900	51,056
	Provincial Highways Program		
Mar. 5, 1985	Program Administration	1,928,400	1,923,038
Mar. 5, 1985	Design	2,959,300	1,852,942
Mar. 5, 1985	Maintenance	6,139,300	6,139,300
Apr. 1, 1985	Maintenance	6,450,000	6,450,000
Apr. 15, 1985	Maintenance	2,700,000	2,698,159
	Provincial Transit Program		
Mar. 5, 1985	GO Advanced Light Rail Transit Project	2,000,000	2,000,000
	Provincial Transportation Program		
Mar. 5, 1985	Air	155,200	—
Nov. 20, 1984	Marine	167,900	167,900
Mar. 18, 1985	Marine	80,700	79,172
	Municipal Roads Program		
Mar. 18, 1985	Program Administration	346,000	294,812
Mar. 5, 1985	Capital, Construction and Maintenance	1,853,000	550,008
	Municipal Transit Program		
Mar. 18, 1985	Program Administration	142,000	—
Apr. 15, 1985	Capital and Construction	29,400,000	29,399,999
Apr. 15, 1985	Operations	5,600,000	5,599,983
	Communications Program		
Mar. 5, 1985	Program Administration	107,400	106,360
Mar. 18, 1985	Program Administration	103,800	—
Mar. 5, 1985	Regulation	17,600	17,600
Mar. 18, 1985	Regulation	46,100	17,946
Nov. 20, 1984	Capital and Construction	80,000	58,198
		69,467,400	65,231,749

Date of Order	Ministry Program and Activity	Authorized	Expended
		$	$
	Ministry of Treasury and Economics		
	Ministry Administration Program		
Mar. 5, 1985	Financial Services	52,600	45,930
Mar. 5, 1985	Personnel Services	39,000	—
Mar. 5, 1985	Information Services	86,000	44,671
Mar. 5, 1985	Legal Services	21,500	13,806
Mar. 5, 1985	Audit Services	59,000	56,808
	Treasury Program		
Mar. 5, 1985	Treasury	809,500	699,723
Mar. 26, 1985	Teachers' Superannuation Fund	1,102,000	1,102,000
Apr. 15, 1985	Teachers' Superannuation Fund	300,000	275,128
Apr. 15, 1985	Superannuation Adjustment Fund — Teachers' Plan	700,000	621,782
	Economic Policy Program		
Mar. 26, 1985	Economic Policy	620,000	504,852
		3,789,600	3,364,700
	Total Management Board Orders	580,422,400	536,261,240

EXHIBIT 4

STATUTORY APPROPRIATIONS

Amounts Provided and Expended Thereunder
Year Ended March 31, 1985

Ministry Activity	Payment Classification	Provided	Expended
		$	$
Ministry of Agriculture and Food			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Tile Drainage Debentures	Loans	25,000,000	23,383,200
Ontario Agricultural Museum Trust Fund	Trust Account	—	14,425
Richard Blake Palmer Horticultural Trust	Trust Account	—	4,860
Payment of Guarantees	Expenditure	1,000	121,565
Subsidy Payments to the Crop Insurance Fund	Expenditure	23,000,000	21,087,822
		48,032,981	44,645,256
Office of the Assembly			
The Election Act	Expenditure	—	2,023,757
Contribution to Legislative Assembly Retirement Allowances Account	Expenditure	1,197,200	1,190,988
Ontario Electoral Boundaries Commission	Expenditure	287,600	191,459
		1,484,800	3,406,204
Ministry of the Attorney General			
Minister's Salary	Expenditure	24,432	21,940
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Payments under the Ministry of Treasury and Economics Act	Expenditure	1,000	130,968
The Proceedings Against the Crown Act	Expenditure	1,000	106,505
Allowances to Supreme Court Judges	Expenditure	202,500	212,095
Allowances to Judges	Expenditure	487,500	489,308
		723,981	968,696
Ministry of Citizenship and Culture			
Minister's Salary	Expenditure	24,432	25,361
Parliamentary Assistant's Salary	Expenditure	7,549	6,757
George R. Gardiner Museum of Ceramic Art	Expenditure	1,000,000	825,000
		1,031,981	857,118

Ministry Activity	Payment Classification	Provided	Expended
		$	$
Ministry of Colleges and Universities			
The Private Vocational Schools Act	Trust Account	—	45,000
Queen Elizabeth II Ontario Scholarship Fund	Trust Account	57,000	63,353
		57,000	108,353
Ministry of Community and Social Services			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Interprovincial Lotteries Trust Fund	Trust Account	250,000	650,000
Bequests and Scholarships	Trust Account	—	5,345
		281,981	688,729
Ministry of Consumer and Commercial Relations			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Unclaimed Monies	Trust Account	—	325
Payments from the Motor Vehicle Accident Claims Fund	Trust Account	16,023,300	9,185,455
Player Receivership	Loan	—	239,442
Security Bond Forfeitures:			
The Consumer Protection Act	Trust Account		35,244
The Motor Vehicle Dealers Act	Trust Account		160,918
The Real Estate and Business Brokers Act	Trust Account	451,500	204,039
The Travel Industry Act	Trust Account		334,494
The Collection Agencies Act	Trust Account		—
The Bailiffs Act	Trust Account		—
Foreign Lands Deposit	Trust Account	—	123,890
Contract Security Deposits — Athletics Commissioner	Trust Account	42,000	1,700
Personal Property Security Assurance Fund	Trust Account	—	17,987
Crown Contributions re Judges Plans	Expenditure	15,000	2,632
Fees under the Vital Statistics Act	Expenditure	500	330
		16,564,281	10,339,473
Ministry of Correctional Services			
Minister's Salary	Expenditure	24,432	25,504
Bequests	Trust Account	—	119
		24,432	25,623

Ministry Activity	Payment Classification	Provided	Expended
		$	$
Office of the Deputy Premier			
Minister's Salary	Expenditure	24,432	25,504
Ministry of Education			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Bequests and Scholarships	Trust Account	49,000	32,045
Ontario Education Association — Elementary Teachers Loan Fund	Trust Account	—	228
		80,981	65,290
Ministry of Energy			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
		31,981	33,384
Ministry of the Environment			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Interprovincial Lotteries Trust Fund	Trust Account	2,300,000	2,299,971
Reserve Fund for Renewals, Replacements and Contingencies	Trust Account	—	1,262,181
Sinking Fund for Recovery of the Cost of Capital Assets	Trust Account	—	922,547
		2,331,981	4,517,716
Ministry of Government Services			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Ministers' Without Portfolio Salaries	Expenditure	24,536	12,806
Contract Security Deposits	Trust Account	161,000	65,675
Realty Services Trust Account	Trust Account	—	379,581
Effingham Park Expropriation Trust Account	Trust Account	—	61,919
Government Stationery Account	Expenditure	1,000	63,692
		218,517	617,057
Ministry of Health			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513

Ministry Activity	Payment Classification	Provided	Expended
Ministry of Health (cont'd)		$	$
Interprovincial Lotteries Trust Fund	Trust Account	3,000,000	2,000,000
Reserve for Outstanding Cheques	Trust Account	—	433,070
		3,031,981	2,466,087
Ministry of Industry and Trade			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Minister Without Portfolio's Salary	Expenditure	—	1,824
Ontario Development Corporation	Loans	13,300,000	18,655,212
Northern Ontario Development Corporation	Loans	7,150,000	4,357,205
Eastern Ontario Development Corporation	Loans	7,150,000	3,966,850
		27,631,981	27,014,475
Ministry of Intergovernmental Affairs			
Minister's Salary	Expenditure	24,432	21,871
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
		31,981	29,751
Justice Policy			
Minister's Salary	Expenditure	24,432	25,504
Ministry of Labour			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Interprovincial Lotteries Trust Fund	Trust Account	1,200,000	1,200,000
Mine Rescue Training	Expenditure	870,500	906,372
Employment Standards — Unclaimed Wages	Trust Account	—	114,160
		2,102,481	2,253,549
Management Board of Cabinet			
Minister's Salary	Expenditure	24,432	25,504
Ministry of Municipal Affairs and Housing			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Minister Without Portfolio's Salary	Expenditure	—	1,824
		31,981	34,841

Ministry Activity	Payment Classification	Provided	Expended
		$	$
Ministry of Natural Resources			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Minister Without Portfolio's Salary	Expenditure	—	1,824
Contract Security Deposits	Trust Account	1,275,000	1,214,919
Thomas Foster Trust Account	Trust Account	—	1,024
Algonquin Forestry Authority	Loans	100,000	253,000
		1,406,981	1,504,151
Ministry of Northern Affairs			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Minister Without Portfolio's Salary	Expenditure	—	1,824
		31,981	35,208
Office of the Premier			
Premier's Salary	Expenditure	34,813	36,336
Parliamentary Assistant's Salary	Expenditure	7,549	9,003
		42,362	45,339
Office of the Provincial Auditor			
Provincial Auditor's Salary	Expenditure	72,800	77,182
Resources Development Policy			
Minister's Salary	Expenditure	24,432	25,504
Ministry of Revenue			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	6,757
Contract Security Deposits — Retail Sales Tax	Trust Account	—	14,424
Local Services Board Levy	Trust Account	—	58,974
Province of Ontario Savings Office	Expenditure	6,309,000	6,800,656
		6,340,981	6,906,315
Social Development Policy			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,124
		31,981	32,628

Ministry Activity	Payment Classification	Provided	Expended
		$	$
Ministry of the Solicitor General			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Payments under the Ministry of Treasury and Economics Act	Expenditure	1,000	799,381
Hearings under the Police Act	Expenditure	1,000	750
Ontario Police College Library Trust Fund	Trust Account	—	2,704
Payments under the Police Act	Expenditure	1,000	—
		34,981	836,219
Ministry of Tourism and Recreation			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Ontario Trillium Foundation	Loans	15,000,000	15,000,000
		15,031,981	15,033,384
Ministry of Transportation and Communications			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,513
Minister Without Portfolio's Salary	Expenditure	—	1,824
		31,981	34,841
Ministry of Treasury and Economics			
Minister's Salary	Expenditure	24,432	25,504
Parliamentary Assistant's Salary	Expenditure	7,549	7,880
Minister Without Portfolio's Salary	Expenditure	—	1,824
Development Loans	Loans	2,000,000	—
Public Debt			
Interest on Ontario Securities			
Public Issues			
For General Purposes	Expenditure	217,811,000	113,541,703
Discount on Treasury Bills	Expenditure	—	70,681,000
Non-Public Issues			
Canada Pension Plan Investment Fund	Expenditure	1,300,000,000	1,302,581,520
Teachers' Superannuation Fund	Expenditure	735,000,000	732,919,172
Ontario Municipal Employees Retirement Fund	Expenditure	117,251,000	117,250,593
Other	Expenditure	31,297,000	31,257,262
Interest on Public Service Superannuation Fund	Expenditure	355,900,000	347,195,239
Interest on Superannuation Adjustment Fund	Expenditure	106,397,000	122,913,043
Interest on Province of Ontario Savings Office Deposits	Expenditure	70,000,000	55,636,753

Ministry Activity	Payment Classification	Provided	Expended
Ministry of Treasury and Economics (cont'd)		$	$
Other Interest, Exchange, Discount and Commission	Expenditure	19,744,000	27,743,955
Debt Transactions	Retirements of Loans	—	109,456,570
Teachers' Superannuation Fund	Expenditure	203,558,000	208,722,524
Pension and Related Adjustment Funds, Trust and Special Purpose Accounts			
Payments from Public Service Superannuation Fund	Pension Fund	149,958,000	163,593,005
Payments from Superannuation Adjustment Fund:			
Teachers' Superannuation Plan	Related Adjustment Fund	36,895,000	31,489,643
Public Service Superannuation Plan	Related Adjustment Fund	30,166,000	31,843,779
Retirement Pension Plan of Ryerson Polytechnical Institute	Related Adjustment Fund		103,821
Caucus Employees Retirement Plan	Related Adjustment Fund	110,000	12,685
Payments from Legislative Assembly Retirement Allowances Account	Pension Fund	971,000	1,061,603
Payments from Provincial Judges Benefits Fund	Pension Fund	—	642,023
Other	Trust Accounts	800,000	752,451
Net Payments Province of Ontario Savings Office	Trust Accounts	—	31,145,682
		3,377,889,981	3,500,579,234
Total Statutory Payments*		3,504,709,040	3,623,258,119

Summary of Statutory Payments

	Provided $	Expended $
Budgetary Expenditure	3,199,000,240	3,166,392,396
Loans, Advances and Investments	69,700,000	50,854,909
Pension and Related Adjustment Funds	218,100,000	228,746,559
Trust and Special Purpose Accounts	17,908,800	67,807,685
Retirements of Loans	—	109,456,570
Total Statutory Payments*	3,504,709,040	3,623,258,119

* Does not include Ontario Hydro Transactions. See Report Section 5.6.

EXHIBIT 5

ORGANIZATION CHART
OFFICE OF THE PROVINCIAL AUDITOR

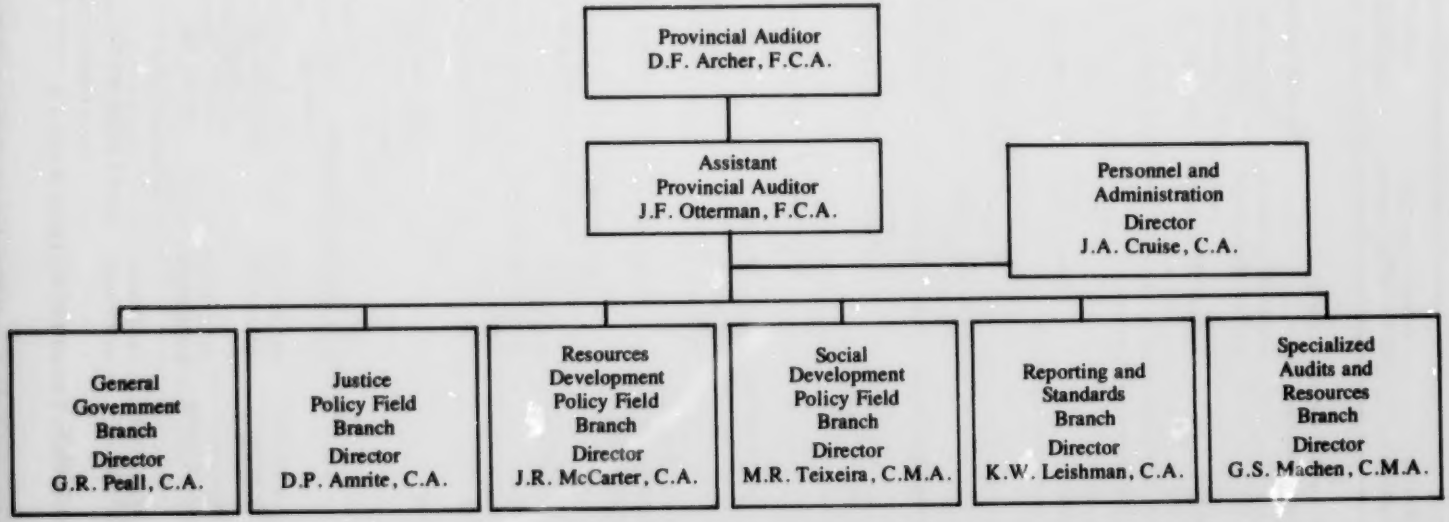

EXHIBIT 6

OFFICE OF THE PROVINCIAL AUDITOR
MINISTRY AUDITS AND SPECIAL REVIEWS

Year Ended March 31, 1985

(Note 1)

MINISTRY AUDITS (Note 2)

Agriculture and Food

* • Quality and Standards Division, Agricultural Marketing and Development Program

Attorney General

* • County and District Courts Activity, Courts Administration Program

Crown Legal Services Program

• Grange Royal Commission

Citizenship and Culture

* • Grants to Sudbury Science Centre

Education

• Capital projects of school boards

* • Curriculum matters

* • Private school inspections

Energy

* • Conventional Energy and Alternative and Renewable Energy Programs

Government Services

* • Accommodation Program

• Information Services Branch

Health

* • Ontario Government Pharmacy and Medical Stores

* • Nursing and Residential Homes

Industry, Trade and Technology

• Operations of Ontario Centres for Technology

Management Board of Cabinet, Civil Service Commission

- Personnel Audit Branch

Natural Resources

* • Forest Management Activity

Revenue

* • Retail Sales Tax Branch

Solicitor General

* • Supply and Field Operations Divisions, Ontario Provincial Police Program

Transportation and Communications

* • Maintenance Activity, Provincial Highways Program

Treasury and Economics

* • Board of Industrial Leadership and Development (BILD)

SPECIAL REVIEWS

Reviews for Standing Public Accounts Committee (Note 3)

- Approval and administration of Rygate Homes Inc. subdivision agreement
- Financial management and administrative systems of Algonquin College of Applied Arts and Technology (2 reports)
- Ministry of Revenue auditing procedures re the Small Business Development Corporation Program
- Financing arrangements for construction of a domed stadium

Other

- Operations of the Royal Commission on the Northern Environment, at the request of the Commission

* • Inspection audit re adequacy of financial and administrative systems and internal controls including compliance, Centennial College of Applied Arts and Technology

* • EDP and associated management controls, Data Processing Services Branch and School Board Services Unit, Ministry of Education

NOTE 1: In general, this listing includes audits completed between October 1, 1984 and September 30, 1985. In all cases at least a portion of the period covered by the audit fell within the fiscal year ended March 31, 1985.

NOTE 2: The activities, programs or subjects covered as the value for money component of each ministry audit are indicated. In cases where these matters appear in Chapter 3 of this Report, they have been indicated by an asterisk (*). It should be noted that ministry audits also include a financial control/compliance component.

NOTE 3: For a more complete description of reviews completed for the Standing Public Accounts Committee, refer to section 7.3 of this Report.

EXHIBIT 7

OFFICE OF THE PROVINCIAL AUDITOR
AGENCY OF THE CROWN AND CROWN CONTROLLED CORPORATION AUDITS

Year Ended March 31, 1985

(See Notes)

AGENCIES OF THE CROWN

(i) Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body.

Ontario Educational Services Corporation (Note 2)
Ontario Industrial Training Institute
* Ontario Land Corporation
Ontario Mortgage Corporation (Note 2)
Ontario Waste Management Corp. (Note 2)
The Owen Sound Transportation Company, Limited (December 31, 1984)
Soldiers' Aid Commission
Star Transfer Limited (December 31, 1984)

(ii) Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.

* The Accountant of the Supreme Court of Ontario
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
* Algonquin Forestry Authority
The Centennial Centre of Science and Technology
Commission on Election Contributions and Expenses
* The Crop Insurance Commission of Ontario
* Eastern Ontario Development Corporation
Egg Fund Board (December 31, 1984)
* Farm Income Stabilization Commission of Ontario
The Fund for Milk and Cream Producers, The Milk Commission of Ontario
Grain Financial Protection Board (Note 3)
* IDEA Corporation
The John Graves Simcoe Memorial Foundation (Note 2)
The Law Society of Upper Canada, Legal Aid Fund
* Liquor Control Board of Ontario
The Live Stock Financial Protection Board
The McMichael Canadian Collection

* The Niagara Parks Commission (October 31, 1984)
* Northern Ontario Development Corporation
North Pickering Development Corporation (Note 2)
Office of the Assembly
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
The Ontario Cancer Treatment and Research Foundation
Ontario Deposit Insurance Corporation (December 31, 1984) (Note 2)
* Ontario Development Corporation
* The Ontario Education Capital Aid Corporation
The Ontario Educational Communications Authority
Ontario Food Terminal Board
The Ontario Heritage Foundation
* Ontario Housing Corporation (December 31, 1984)
* Ontario International Corporation
* The Ontario Junior Farmer Establishment Loan Corporation
* Ontario Lottery Corporation
* The Ontario Municipal Improvement Corporation
* Ontario Northland Transportation Commission (December 31, 1984)
* Ontario Place Corporation
Ontario Racing Commission
Ontario Stock Yards Board (June 30, 1984)
The Ontario Telephone Development Corporation
* The Ontario Universities Capital Aid Corporation
* Ontario Waste Management Corporation
Pension Commission of Ontario
Police Complaints Board
Processing-Vegetable Financial Protection Board (Note 3)
Province of Ontario Council for the Arts
* Provincial Judges Benefits Fund (Note 3)
Public Complaints Commissioner
* Public Service Superannuation Fund
* The Public Trustee of the Province of Ontario
Residential Tenancy Commission
The St. Clair Parkway Commission (December 31, 1984)
The St. Lawrence Parks Commission
* Superannuation Adjustment Fund

(iii) Whose accounts are audited by an auditor, other than the Provincial Auditor, appointed by the Lieutenant Governor in Council. These audits are performed under the direction of

the Provincial Auditor pursuant to section 9(2) of the Audit Act.

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
The Ontario Cancer Institute
Ontario Mental Health Foundation
* Teachers' Superannuation Fund (December 31, 1984)
* Workers' Compensation Board (December 31, 1984)

(iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.

* Toronto Area Transit Operating Authority

CROWN CONTROLLED CORPORATIONS, whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

Beechgrove Regional Children's Centre Board of Governors
The Board of Governors of The Ontario Institute for Studies in Education (April 30, 1984)
Metropolitan Toronto Convention Centre Corporation
* Ontario Centre for Advanced Manufacturing
* Ontario Centre for Automotive Parts Technology
* Ontario Centre for Farm Machinery and Food Processing Technology
* Ontario Centre for Microelectronics
* Ontario Centre for Resource Machinery Technology
Ontario Cream Producers' Marketing Board (September 30, 1984)
* Ontario Energy Corporation (December 31, 1984)
Ontario Historical Studies Series
* Ontario Hydro (December 31, 1984)
The Ontario Milk Marketing Board (October 31, 1984)
Ontario Municipal Employees Retirement Board (December 31, 1984)
Ontario Research Foundation (December 31, 1984)
Ontario Share and Deposit Insurance Corporation (December 31, 1984)
The Ontario Transportation Development Corporation (December 31, 1984) (Note 2)
Ontario Trillium Foundation

Ontario Van Pool Organization Limited (December 31, 1984)
Stadium Corporation of Ontario Limited (December 31, 1984) (Note 3)
The Royal Ontario Museum (June 30, 1984)
* Urban Transportation Development Corporation Limited (December 31, 1984)

* Audited financial statements reproduced in 1984-85 Public Accounts, the majority appearing in Volume 2.

Note 1: In all cases, the audits cover the fiscal period of the Agency or Corporation. In most cases, the fiscal period ended on March 31, 1985. Where the fiscal period ended on a date other than March 31, 1985, such date has been indicated in parenthesis.

Note 2: Inactive during this fiscal year.

Note 3: Newly established this fiscal year.

EXHIBIT 8

OFFICE OF THE PROVINCIAL AUDITOR
PROVINCE OF ONTARIO

STATEMENT OF EXPENDITURE
for the year ended March 31, 1985

	1985		1984	
	Actual	Estimates	Actual	Estimates
Salaries and wages	$2,973,207	$3,314,800	$2,951,463	$3,328,100
Employee benefits	369,315	528,600	503,763	525,100
Transportation and communication	201,966	118,000	124,303	104,000
Services	179,353	112,000	122,951	112,000
Supplies and equipment	53,662	40,000	29,925	35,000
Transfer payments				
Canadian Comprehensive Auditing Foundation	38,500	38,500	36,750	36,700
	3,816,003	4,151,900	3,769,155	4,140,900
Provincial Auditor's Salary	77,182	72,800	72,822	69,500
	$3,893,185	$4,224,700	$3,841,977	$4,210,400

NOTES

1. Accounting Policy

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

2. Estimates

The estimates shown above are those noted and approved, including supplementary estimates where applicable.

AUDITORS' REPORT

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1985. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1985 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Canada
July 4, 1985

ALLEN, MILES, FOX & JOHNSTON
CHARTERED ACCOUNTANTS

STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED IN PREVIOUS ANNUAL REPORTS

(See Note)

Report	Section	Caption	Status as at Date of Preparation of 1985 Auditor's Report
		Ministries — General	
1984	3.4	Review of contracts initiated by Minister of the Crown	Status to be reviewed when the recommendations in the government accountability study that relate to the Manual of Administration have been fully addressed (see section 3.3 of this Report).
		Ministry of Colleges and Universities	
1984	3.6	Potential for improved delivery of Apprentice Training Program	Status to be verified at time of next audit in this area.
		Ministry of Community and Social Services	
1983	*3.5	Inadequate monitoring and reporting procedures re Provincial allowances and benefits	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1984	3.7	Audit of Children's Social Services Activity	Status to be verified at time of next audit in this area.
1984	*3.8	Review of computer controls	Substantially implemented.
		Ministry of Consumer and Commercial Relations	
1984	*3.9	Improvements required re EDP operations	Implemented.
		Ministry of Correctional Services	
1984	3.11	Improvements needed re Probation and Parole Services	Status to be verified at time of next audit in this area.

Report	Section	Caption	Status as at Date of Preparation of 1985 Auditor's Report
		Ministry of Education	
1983	3.7	Deficiencies in accountability process re General Legislative Grants	Status to be verified at time of next audit in this area.
		Ministry of the Environment	
1983	3.8	Operating and other deficiencies, Environmental Control Program	Status to be verified at time of next audit in this area.
1984	3.12	Lack of compliance and other matters related to economy	Status to be verified at time of next audit in this area.
		Ministry of Government Services	
1984	*3.13	Opportunities for increased economy and efficiency re maintenance of Government facilities	Substantially implemented.
		Ministry of Health	
1984	3.14	Excessive costs incurred re payments under Ontario Drug Benefit Plan	Status to be verified at time of next audit in this area.
1984	3.15	Potential for increased revenue and recoveries, Ontario Health Insurance Plan	Status to be verified at time of next audit in this area.
		Ministry of Industry and Trade	
1982	*2.11	Opportunity for increased efficiency in operations of Industry Development Program	Substantially implemented.
		Ministry of Labour	
1983	3.12	Potential for operations improvements, Construction Health and Safety Branch	Status to be verified at time of next audit in this area.

Report	Section	Caption	Status as at Date of Preparation of 1985 Auditor's Report
		Ministry of Municipal Affairs and Housing	
1984	3.17	Non-compliance noted re Ontario Youth Employment Program	Status to be verified at time of next audit in this area.
		Ministry of Natural Resources	
1984	*3.18	Improvements in economy and efficiency warranted re Outdoor Recreation Program	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
		Ministry of the Solicitor General	
1983	*3.16	Excessive short term absences	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1983	*3.17	Poor management and control practices, Ontario Police College	Substantially implemented.
		Ministry of Tourism and Recreation	
1983	3.18	Detailed audit of operations	Status to be verified at time of next audit in this area.
1983	3.19	Observations re Agency of Record and Government advertising expenditures	Status to be verified at time of next audit in this area.
		Ministry of Transportation and Communications	
1983	*3.20	Deficiencies re vehicle licensing and registration	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1984	*3.20	Lack of efficiency re Examination, Inspection and Enforcement Activity	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
		Crown Agencies	
1983	*4.2	Accountability of Crown Agencies	Reviewed by the Public Accounts Committee and a recommendation contained in their 1984 report to the Legislature (see Exhibit 10).
1984	4.3	Inadequate procedures to measure effectiveness of loans, The Development Corporations	Not yet implemented. Possible approaches are still being considered. Status will be determined in our next audit.

Report	Section	Caption	Status as at Date of Preparation of 1985 Auditor's Report
1984	*4.4	Questionable use of consultant and non-compliance matters, Liquor Control Board of Ontario	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1984	*4.5	Inadequate EDP controls and other deficiencies, Motor Vehicle Accident Claims Fund	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1984	*4.6	Questionable use of Caucus Research Support Funding, Office of the Assembly	Implemented. On July 30, 1985 the Board of Internal Economy approved a motion incorporating the Research Support Allowance into the Research Allowance. Administrative staff have been asked to ensure that there is proper documentation relating to Caucus requisitions.
1984	*4.7	Review of compliance with Ontario Manual of Administration, Office of the Ombudsman	Substantially implemented.
1984	*4.8	Observations re investments, The Ontario Cancer Treatment and Research Foundation	Not implemented, not considered feasible by the Foundation.
1984	*4.9	Appointment of distributors and questionable use of public funds, Ontario Lottery Corporation	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1984	*4.10	Insufficient freight rates charged to major customer, Ontario Northland Transportation Commission	Not implemented as the Commission's customer is using an alternative means of transportation.
1984	*4.11	Improvements needed re operational efficiency of Medical Aid Branch, Workers' Compensation Board	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:
(a) considered unresolved per Exhibit 9 of the 1984 Auditor's Report.
(b) contained in the body of the 1984 Auditor's Report.

* Considered resolved as at September 30, 1985.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY

EXHIBIT 10

(See Note)

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
December 9, 1980	*Ministry of the Solicitor General — Policing Services: On the question of policing, the Committee recommends that the Ministries involved move without further delay to arrive at a rationalized and equitable means of financing policing services on a consistent basis.	On October 5, 1984 the then Deputy Solicitor General advised us that an Interministerial Committee had completed a draft report on this subject. This report was being reviewed, and it was anticipated that a final report would be ready for review by the participating Deputy Ministers (Solicitor General, Treasury and Economics, and Municipal Affairs and Housing) before the end of the year. On October 7, 1985 we were advised as follows by the Deputy Solicitor General: *"With regard to the study of the inequities and anomalies in the funding and organization of policing in Ontario, a submission has been prepared for presentation to Cabinet and is at the final review stage by the Solicitor General.* *"At the present moment current costs estimates of the options available are being prepared for inclusion with the submission.* *"The submission to Cabinet should be available for presentation by the end of the year."*
March 5, 1985	*Management Board of Cabinet — Program Advertising: It is the Committee's recommendation that where Ontario government programs with funding limits exist, program	On October 2, 1985 the Secretary, Management Board of Cabinet, advised us as follows: *"I concur with the general principles underlying*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
	advertising should communicate clearly both the financial (or funding) limits and the time constraints involved.	*this recommendation. Staff of the Management Board will be developing alternatives to ensure that those responsible for communications are mindful of the need to specify funding limits and timing constraints in program advertising where it is appropriate and practical to do so.* *"For purposes of clarification, I should point out that the extent of public subscription in many new programs cannot be estimated with precision. Accordingly, the resources initially allocated in support of new programs frequently constitute estimates rather than program ceilings, and should be perceived as such."*
March 5, 1985	*Ministry of Government Services — Surplus Accommodation: The Committee recommends that efforts should be made to obtain revenue from unused space which is no longer suitable for government requirements.	The Deputy Minister wrote to the Chairman of the Standing Public Accounts Committee on April 9, 1985 as follows: *"The Ministry of Government Services (MGS) supports this recommendation that 'efforts should be made to obtain revenue from unused space which is no longer suitable for Government requirements'.* *"The Ministry of Government Services follows established corporate policies and procedures for the allocation of facilities for Government purposes. When facilities, including space within buildings, buildings and entire properties, are surplus to the need of the ministry to which they have been allocated, that ministry declares them as surplus, to the Ministry of Government Services.* *"MGS then follows established procedures, to evaluate the characteristics and usefulness of the facilities for other Government purposes. To the*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
		greatest extent possible, it attempts to reallocate the surplus facilities, to satisfy the accommodation requirements of other ministries. . . . *"When the surplus facilities consist of space within a building, and when no immediate Government use can be identified, MGS makes every effort to lease this space at full market value to organizations and for purposes outside of Government.* *"When the surplus facilities consist of an entire property, and when no current or future Government use can be identified, MGS follows routine procedures to dispose of the property in the most cost-effective way . . . In 1984/85, we expect to have generated about $27 million from the sale of surplus land and facilities.* *"Recently, MGS has initiated a series of Local Accommodation Reviews, in various municipalities across the Province, to identify strategic opportunities for managing the real estate portfolio."*
March 5, 1985	*Ministry of Labour — Construction Inspection: The Committee recognizes that progress has been made by the Ministry of Labour in the prevention of construction accidents throughout the province; however, it recommends that the Ministry seek additional means for increasing the number of staff inspectors in the Construction Health and Safety Branch.	In a letter dated March 25, 1985 the Deputy Minister advised the Chairman of the Standing Public Accounts Committee as follows: *"I have noted the recommendation dealing with our Construction Health and Safety Branch. We will continue to seek opportunities to enhance our capabilities in the area of construction inspection.* *"However, during the present period of constraint, the Committee will appreciate that increases to complement are very difficult to achieve. If, in the*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
		allocation process, it is not possible to obtain further funding for increased inspection services, we will consider alternative means of increasing the frequency of inspections on high risk projects."
March 5, 1985	*Ministry of Northern Affairs — Hornepayne Town Centre: The Committee recommends that the Provincial Auditor conduct a follow-up review of the Ministry of Northern Affairs' evaluation of the Hornepayne Town Centre, noting, in particular, the social benefits incurred, and report his findings to the Public Accounts Committee at his convenience.	A report dealing with this subject will be submitted to the Committee before the end of the year. In this regard, it should be noted that no evaluations have been completed subsequent to the one tabled by the Ministry at the Committee's March 6, 1984 meeting.
March 5, 1985	*Ministry of the Solicitor General — O.P.P. Telecommunications Project: The Committee wishes to express concern regarding the delays and increasing costs associated with the O.P.P. telecommunications project. It appears possible that the projected completion date could mean that the project might be out-moded or obsolete at the time of its implementation. Therefore, the Committee recommends that the Ministry of the Solicitor General re-examine the project in light of the above-noted problems, while not precluding the option of cancellation.	On May 27, 1985 the Deputy Solicitor General wrote to the Chairman of the Standing Public Accounts Committee as follows: *"The new telecommunications system planned for the O.P.P. will not be obsolete by the date of implementation and is expected to serve the needs of the Force for many years.* *"The mobile radio system using an automatic channel control concept was significantly ahead of then available designs, and, in fact, similar types of systems are now evolving. The system was originally developed to allow the addition of new features, such as mobile data terminals, and integration with other computerized systems within the police community. Components yet to be purchased, such as telephone equipment, will of course take advantage of new developments which occur in the industry up to the time of implementation.*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
		"All of the components of the new telecommunications system purchased to date were the most current available at the time contracts were awarded and the vast majority are still the most current equipment models available. As with any high technology purchase, there is always a risk that today's product will be replaced with a new generation tomorrow. This in itself does not constitute obsolescence, provided that the products remain serviceable and continue to be supported by the manufacturer. *"Senior staff of the OPP Telecommunications Project meet weekly to review the status of the project. The project, therefore, is subjected to constant management review. The Ministry does not intend to cancel the project."*
March 5, 1985	*Ministry of Tourism and Recreation — Effectiveness of Advertising: The Committee recommends that the Ministry of Tourism and Recreation make more effort to determine the effectiveness of its advertising by correlating tourist enquiries with sources of advertising, through increased information-gathering procedures and the closer monitoring of telephone calls, travel studies and surveys.	The Deputy Minister wrote to the Chairman of the Standing Public Accounts Committee as follows on April 22, 1985: *"Last year, in response to expectations expressed by the Provincial Auditor and Management Board and as part of a major ministry-wide MBR review, the Tourism Division MBR abstract was revised to reflect more detailed information on program results relative to various advertising and operational initiatives of the division. For example, specific data was included on the 1983 summer and 1984 winter tracking surveys conducted in Ontario and the U.S. to determine the impact of the advertising inserts.*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
		"In an effort to further refine its MBR process, the Ministry's Tourism Division is again undertaking an internal MBR improvement project. This project is aimed at ensuring the program results are fully integrated with the marketing plan and objectives. . . . *"Together with the Domestic Travel Survey Update in 1985, a major exit survey will be conducted to collect information on all non-resident travel within the province. An important aspect of the 1985 exit survey is the opportunity that it provides for a follow-up, in-depth survey with visitors to the province. Therefore, more specific information on the impact of our advertising will be obtained.* *"Also the Tourism Management Information System (now referred to as the Travel Counselling Data Base) provides an additional and more sophisticated means of gathering tourist information. A telephone sequencer system has been installed to regulate incoming travel inquiries and this has improved customer service. It also provides a valuable record of enquiries in both English and French from local and distant areas, as well as from the U.S.A. . . .* *"In terms of full implementation of the Travel Counselling Data Base, several systems design studies have been completed and we are now ready to proceed for approval to tender for the total computerized system."*
March 5, 1985	*Ministry of Tourism and Recreation — Agency of Record: With regard to the Agency of Record selection process,	The Deputy Minister in his April 22, 1985 letter advised the Chairman of the Standing Public Accounts Committee as follows: *"In selecting panel members to review the*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
	the Committee recommends that, when the review committee is struck later in 1985, particular consideration be directed to the fact that no apparent conflict of interest exists.	*government's Agency of Record contract with (an advertising agency) which is due for mandatory, competitive, three-year-maximum-term review by September 30, 1985, the Ministry will give particular weight to the Public Accounts Committee's recommendation."*
March 5, 1985	*Ministry of Tourism and Recreation — Ethnic Advertising Program: As a result of the Committee's review of the "Ontario 20" Ethnic Advertising Program, it is the Committee's recommendation that all circulation data, which form part of the cost basis for advertising, be subject to verification by the Ministry.	In his April 22, 1985 letter the Deputy Minister informed the Chairman of the Standing Public Accounts Committee that: *"The Ministry, in recent months, has been actively designing a groundwork structure for determining the validity of circulation data provided to the government by Ethnic publications."*
March 5, 1985	Management Board of Cabinet — Accountability of Crown Agencies The Committee concurs with the concerns raised by the Provincial Auditor that: a) there are certain areas where consideration might be given to the possibility of strengthening the role of the Legislature, particularly in the creation of new agencies and subsidiary agencies; and b) with regard to self-funded agencies such as Ontario Hydro and the Ontario Lottery Corporation, which are not subject to Estimates reviews, budgets might perhaps be tabled in the Legislature in advance, or presented to a legislative committee.	On September 3, 1985 the Secretary of the Cabinet advised us as follows: *"I should like to make the following comments with respect to the recommendation, strengthening the role of the Legislature in dealings with Crown agencies.* *"First, the Legislature has utilized two Standing Committees to consider issues regarding Crown agencies:* *— Standing Public Accounts Committee; and* *— Standing Committee on Procedural Affairs and Agencies, Boards and Commissions.* *"Both of these Standing Committees have been*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
	The Committee therefore recommends that the Legislative Assembly examine the Provincial Auditor's concerns relating to the accountability of Crown agencies in a forum of its choosing.	*continued by the present Government, and the latter Committee has been authorized to consider methods of appointments to Agencies, Boards and Commissions.* *"Secondly, on July 2, 1985, in a statement to the Legislature, Premier Peterson announced the appointment of . . . as a Special Advisor with the rank and status of a Deputy Minister, to lead an assessment of all Crown corporations and assets, including organizational and accountability reviews, as well as a determination of cost effectiveness."*
March 5, 1985	*Liquor Control Board of Ontario — EDP Training Program: The Committee notes, with approval, the statement made by the Chairman of the LCBO that EDP management training needs would be assessed and considered at a future time. The Committee recommends that this be done immediately, that measureable training objectives be established, and that an evaluation and assessment of the training program be carried out.	In a letter dated May 14, 1985, co-signed by the Chairman of the Liquor Control Board of Ontario and the Deputy Minister of the Ministry of Consumer and Commercial Relations, the Chairman of the Standing Public Accounts Committee was advised that: *"The content (of the Committee's report) fairly reflects the discussions, and the recommendation has already been implemented. In fact, the budget for this purpose for 1985/86 is $60,000 as contrasted with the $21,897 reported for 1982/83."*
March 5, 1985	*Management Board of Cabinet — Consulting Services: The Committee recommends that, prior to hiring outside consultants, all ministries should conduct an analysis of in-house capability and define the goals and objectives of the consultations. Once the hiring has been done, ministries should maintain adequate monitoring of the consultants' work to ensure that value-for-money is achieved.	On October 2, 1985 the Secretary, Management Board of Cabinet, advised us as follows: *"Upon review, I am confident that existing policies governing the acquisition of management and technical consulting services and systems development services meet the requirements of this recommendation.*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
		"For example, Policy 50-3, Management Consulting Services places the following requirements on ministries: *1. Ensure that skilled resources are not available for this project within the ministry (Section 2).* *2. Ensure that the consultants' output can be measured against defined objectives (Section 2).* *3. Coordinate, monitor and control the combined efforts of internal and external resources to ensure satisfactory completion of the project on schedule and within budget (Section 6).* *"Similar requirements are found in the other two policies.* *"The Board has expressed a desire to review these policies in the near future. The Committee's perspective will be taken into consideration in any such review."*
March 5, 1985	*Management Board of Cabinet — Accountability of Ontario Hydro: The Committee believes that the accountability of Ontario Hydro should be strengthened, particularly in light of the Corporation's annual expenditures, and substantial capital and borrowing requirements. The Committee also believes that there should be a suitable forum within the Legislature, for the effective discussion of these issues. Therefore, the Committee recommends that the government give consideration to the implementation of certain mechanisms designed to ensure Hydro's accountability to the Legislature, the government and the	The Secretary of the Cabinet advised us on September 3, 1985 as follows: *"With respect to the recommendation, strengthening the accountability of Ontario Hydro, the instruments that describe Ontario's accountability to the Government, the Legislature and the public are the Power Corporation Act and the Memorandum of Understanding, signed by the Minister of Energy and the Chairman of Ontario Hydro on behalf of the Board of Directors.* *"Within the existing framework of accountability, the Ministry of Treasury and Economics maintains*

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1985 Auditor's Report
	Ontario public. Such mechanisms might include: a pre-Budget examination of Ontario Hydro's finances; an annual review of Hydro's borrowing requirement and its impact on the government's credit rating and contingent liabilities; and/or the re-establishment of a select committee of the Legislature to investigate the affairs of Ontario Hydro.	*an ongoing review of Ontario Hydro's finances and borrowings. This review includes Ontario Hydro's financial position, its borrowing requirement and its impact on the Government's credit rating and contingent liabilities.* *"The Select Committee on Energy, established July 10, 1985, has been asked to conduct a review of Ontario Hydro affairs. This review may include examination of Ontario Hydro's mandate and the mechanisms for its accountability to the Legislature, the Government and the public."*

NOTE: This Exhibit provides the status of all recommendations contained in the Standing Public Accounts Committee's March 5, 1985 Report to the Legislature. The Exhibit also includes the status of recommendations contained in previous Committee reports which were considered unresolved by the relevant ministry or agency per Exhibit 10 of our 1984 Report.

*Considered resolved by ministry or agency as at September 30, 1985.